MUNICIPAL TAX DUPLICATION AND REVENUE SHARING IN MONTGOMERY COUNTY, MD

OFFICE OF LEGISLATIVE OVERSIGHT
REPORT NUMBER 2013-6

June 18, 2013

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Municipal Tax Duplication and Revenue Sharing in Montgomery County MD

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This OLO report responds to the County Council's request to better understand municipal tax duplication programs and provide ideas to improve the County's program. It reviews research from the Institute for Government Services (IGS) and the Maryland Municipal League (MML) and other counties' programs.

Purpose of Municipal Tax Duplication Programs

Under Maryland's governance structure, counties and municipalities have concurrent power to levy real property taxes and have home rule authority to independently decide the services they deliver. These conditions can result in a municipal taxpayer being taxed twice for services he or she receives only once. As MML explains:

> **Double taxation** exists (1) when a county and a municipality within that county provide similar services financed with property tax revenues, and (2) when the county does not provide those services within the municipal corporate limits. In such cases, municipal property owners pay taxes to both the municipal and county governments for a service (or services) they receive only from the municipality.

Municipal tax duplication programs exist to resolve these double taxation inequities. Counties identify services that give rise to double taxation, develop methods and formulas to determine the value of those services (often referred to as a "tax setoff"), and then decide whether to resolve the double taxation through a rebate payment to the municipal government or through a tax differential (i.e., setting a lower county property tax rate for municipal taxpayers).

State and County Municipal Tax Duplication Law

State law establishes a framework for local tax duplication programs, and specifically requires Montgomery County (and six other Maryland counties) to establish reimbursement programs. The State law leaves decisions about formulas and payment methods to local officials – requiring local governing bodies to meet and confer about county property tax rates in municipalities - but mandates that a county's determination of tax setoff value consider the extent of funding from property tax revenues.

County law establishes a municipal reimbursement program. It specifies qualifying conditions to determine services eligible for reimbursement; assigns responsibility for determining tax setoff values to the county executive; specifies that tax setoff values must approximate the amount of municipal tax revenues and be limited to the amount the county would expend for the eligible services; provides for a rebate payment (but not a tax differential); and limits funding to the council appropriation.

Service Group Definitions

The administration of a municipal property tax duplication program recognizes four distinct service groups:

- **County-only services** are mandatory services that municipalities cannot provide by law such as K-12 education, community colleges, health services, and corrections.
- **Shared Services** are discretionary services that both counties and municipalities can provide and thus may create tax duplication issues such as water and sewer, police and fire protection, parks and recreation services, street and highway maintenance, planning and zoning, and solid waste removal.
- **Reimbursable Services** are shared services that meet the conditions for tax duplication and are eligible for reimbursement from the County.
- **Non-reimbursable Services** are services uniquely provided by a county or municipality or internal services such as human resources or finance that exist only because the government itself exists.

County General Fund and Corresponding Municipal Service Expenditures

In 2011, County General Fund expenditures for were $1.8 billion for "county-only" services and $585.7 million for "shared services". The County's 22 municipalities spent $105.5 million on shared services in 2011, including $11.3 million on reimbursable services and $94.1 million spent on non-reimbursable services.

County General Fund and Select Municipal Expenditures by Service Type, 2011

Service Type	County General Fund Expenditures	Municipal Operation Fund Expenditures[1]	Total Expenditures
County-Only Services	$1.8 billion		$1.8 billion
Board of Education	$1.422.6 billion		$1.422.6 billion
Health and Social Services	$155.7 million	--	$155.7 million
Community College	$102.5 million		$102.5 million
Corrections	$62.9 million		$62.9 million
All Other State Mandates	$57.6 million		$57.6 million
Shared Services	$585.7 million	$105.5 million	$691.2 million
Reimbursable	$198.4 million	$11.3 million	$210.0 million
Non-Reimbursable	$387.3 million	$94.1 million	$481.4 million
Total	**$2.4 billion**	**$105.5 million**	**$2.5 billion**

Source: Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook

Municipal Tax Duplication Payments and the State's Shared Revenue Structure

In 2011, the $7.8 million tax duplication payment that the County made to cover all municipal reimbursable services (including park maintenance services) totaled $11.5 million, leaving a shortfall of $3.8 million. However, besides the tax duplication payment, the State's shared revenue structure re-directs 17% of county income taxes paid by municipal taxpayers to their municipal governments to fund municipal services. In 2011, municipal governments received $30.7 million in shared county income tax revenue, and together the tax duplication payment and shared county income revenue totaled $38.5 million. This combined county revenue accounted for 36% of the $105.5 million in municipal shared services' spending.

In 1970, the Committee on Taxation and Fiscal Matters recommended against establishing a statewide municipal tax duplication law, stating in part, that "the existing requirements for the counties to make certain revenues available to municipal corporations have created instances where municipal corporations are receiving a disproportionate share of revenues for the type of services provided."

In its review of this issue, IGS stated "If a municipality provides very few services, it is possible that the state-shared revenues received by the municipality to help it fund these services will exceed the equivalent amount of county property tax levied against municipal residents to fund a parallel county service. In this case, no tax differential would be awarded." (emphasis added)

OLO's analysis of municipal full reimbursable service costs and their shared county income tax revenues in FY13 shows that under this approach only two County municipalities would qualify for a rebate payment.

[1] Since these are only expenditures that parallel County General Fund services, they exclude parks and recreation.

Issues with the County's Current Municipal Tax Duplication Program

Current List of Reimbursable Services and Municipal Providers

Reimbursable Service	Current Municipal Providers	% of County Served by Municipal Providers
Animal Control	Gaithersburg and Rockville	12.4%
Board of Appeals	Town of Chevy Chase	0.3%
Crossing Guards	Takoma Park	1.7%
Hearing Examiner	Town of Chevy Chase	0.3%
Human Rights	Rockville	6.3%
Park Maintenance	Chevy Chase Section 3, Town of Chevy Chase, Friendship Heights, Kensington, Takoma Park	2.8%
Police	Takoma Park	1.7%
Road Maintenance	All Except Barnesville	13.4%
Senior Groceries	Friendship Heights	0.5%
Senior Transportation	Gaithersburg, Friendship Heights, Rockville	12.9%

Current County law creates confusion about service reimbursements and the County's overall MTD policy. Inconsistencies among the law, task force reports and Council resolutions create ambiguity about the intent of the County's program. Two examples of issues with the current County law are: 1) it allows the County to not reimburse for a service if it determines it would not provide the service in the future; and 2) it fails to recognize service rates, effectively precluding municipal service partnerships.

Several disconnects exist between the County's current list of reimbursable services, its service funding structures, its rebate payments and its municipal provider services. For example, 1) the County General Fund reimburses for park maintenance services that are funded through the Metropolitan District; 2) land use hearings are reimbursed for one municipality but not others; 3) Takoma Park receives reimbursements for library and police services (authorized in the County Code) separate from the municipal tax duplication program; and 4) police service rebates that were formerly included are currently excluded.

The current formulas are outdated, lack uniformity and their results are ignored. Both the formulas used to administer the program and the practice of not fully funding the formula results have been a source of ongoing, persistent problems since the seventies. In FY13, County funding was $3.8 million below the formula amount. The current formulas reflect an ad hoc assortment of agreements developed over time. This approach stands in contrast to IGS' recommended methodology and other county programs where a consistent set of factors is uniformly applied to determine municipal tax differentials or rebate payments.

Municipal stakeholders perceive that the program does not adequately address persistent tax differential issues and that it has an inherently political element. Municipal stakeholders suggested that the cost formulas are not realistic and held widely shared concerns that no consistent methodology exists for revising or updating the formulas. Stakeholders suggested that the County allow reimbursements for non-recurring costs, establish an "audit process" for formulas, and release relevant information ahead of the County's budget release so municipalities would have an opportunity to locate and correct potential errors.

OLO Recommendations

As the County's local governing body, decisions about the design of a Municipal Tax Duplication program, including methodologies to determine reimbursable services, formulas to determine tax set-off values, and responsibilities for program administration, rest with the Council. OLO's recommendations offer the Council an opportunity to create a more fiscally sustainable program while establishing a structure that strengthens County/municipal partnerships, improves transparency and addresses equity for nonmunicipal taxpayers.

Recommendation #1: Implement nine revisions to strengthen the fairness, uniformity and sustainability of the County's municipal tax duplication program.

Revision A: Revise the municipal tax duplication payment formula to reimburse on a property tax cost basis to better align the County's program with State law and the State's shared revenue structure.

Revision B: Give municipalities and their taxpayers the option to make a one-time election for either a County property tax rate differential or a property tax share municipal rebate payment.

Revision C: Fund park maintenance service rebates with revenue from the Metropolitan District, or redraw the Metropolitan District boundaries to eliminate park maintenance reimbursement payments from the MTD program.

Revision D: Transfer the Takoma Park Library rebate, currently authorized as a separate payment in County law, into the municipal tax duplication program.

Revision E: Include land use administrative hearings as reimbursable services under the municipal tax duplication program for all municipalities in the County that provide these services.

Revision F: Replace the current cost of service formulas with a methodology that uses available activity and/or relevant program data to develop unit cost factors for crossing guards, human relations and library services.

Revision G: Revise the methodology for the transportation cost of service calculation to determine the County's net costs per mile using data from the Local Highway Finance Report filed annually with the State.

Revision H: Provide a single reimbursement payment for Takoma Park police services through the municipal tax duplication program by eliminating the stand-alone payment authorized in the County Code. Revise the current repayment methodology to utilize a unit cost formula.

Revision I: Incorporate the use of service rate factors as part of the County's municipal tax duplication program, and re-institute reimbursement for police patrol services in Chevy Chase Village, Gaithersburg and Rockville under the partial service rate model.

Recommendation #2: Establish a Municipal Grant Program for non-recurring expenses and other initiatives. Structure the program to cap annual funding at an amount equal to the annual appropriation for the MTD program and require matching contributions.

A grant program could help fund municipalities' non-recurring expenses, provide seed money for shared County/municipal service initiatives and fund payments to help low wealth municipalities cover their reimbursable service costs. Grants to address funding shortfalls between a municipality's full cost of reimbursable services and its shared county income tax revenues could be a first claim on available funds. To maintain equity and protect nonmunicipal taxpayer interests, annual funding should be capped and the program should require a matching municipal contribution.

I. Authority, Scope, and Organization

A. Authority

Council Resolution 17-517, *FY 2013 Work Program for Office of Legislative Oversight*, adopted July 31, 2012.

B. Scope and Purpose

Under State and County law, the Council must fund annual municipal reimbursement payments to address duplicative tax payments made by municipal residents. Under the current County methodology, these payments are based on the County's full tax-supported costs; under State law, payments are based on costs attributable to property tax revenues only. Statewide, eighteen counties administer a program that provides a municipal reimbursement, a tax differential or both. Montgomery County is one of seven counties that has a mandatory program.

In FY08, shortly after a newly formed Task Force was charged with addressing municipal revenue sharing issues, including formulas for the County's Municipal Revenue Program, the Council froze the program's payments. The payments stayed frozen for two more years before they were reduced in FY11 and FY12. The Council partially restored the payments in FY13.[1] In FY11 and FY12 along with the lower reimbursement payments, the Council also made cuts to other County/municipal service contracts.[2]

In 2012, the Council's Government Operations Committee held two worksessions to discuss The Final Report of the Municipal Revenue Sharing Task Force, released in June 2012. During these discussions, Committee members raised several questions about the current program.

The Council requested this OLO study to improve its understanding of municipal reimbursement programs and learn about other jurisdictions' programs before it considers amendments to the County's Municipal Revenue Sharing law. The Council is particularly interested in whether other counties' reimbursement payments exceed State law requirements or whether strategies exist to limit subsidies between municipal and non-municipal taxpayers.

C. Methodology

OLO Senior Legislative Analyst Sue Richards conducted this study with assistance from Senior Legislative Analyst Craig Howard, Research Associate Carl Scruggs and Administrative Specialist Kelli Robinson.

To prepare this report, OLO convened a focus group and conducted interviews with municipal representatives; compiled and reviewed County documents to understand the legislative history and administration of Montgomery County's law and program; reviewed policy, research and technical reports from the Institute for Government Services, the Maryland Municipal League, and the State Department of Legislative Services; and interviewed staff and reviewed program documents from other jurisdictions.

OLO used data from the Local Government Finances Handbook and the Tax Set-off Report published by the Maryland Department of Legislative Services and data from Montgomery County's Uniform Financial

[1] In FY08, FY09 and FY10, County payments were frozen at the FY07 amount; in FY11 and FY12 they were 85% of the FY07 amount due to fiscal constraints; in FY13, the Council added a one-time 10% increase.
[2] The City of Gaithersburg Senior Center and the New Hampshire Avenue Recreation Center are examples of County cuts to other service contracts. See pages 41 and 42 of *The Final Report of the Municipal Revenue Sharing Task Force Report* (here) for details.

Report and the Office of Management and Budget to develop estimates of municipal expenditures and County revenues and expenditures for county-only services and shared services. OLO used a methodology from the Institute for Government Services (IGS) to develop estimates of tax differentials; a methodology from Frederick County to develop estimates for full tax-supported costs based on net per capita program costs; and a methodology from IGS and Montgomery County to estimate tax rebate amounts.

D. Organization of Report

Chapter II, Understanding Municipal Tax Duplication Programs, explains the purpose of municipal tax duplication (MTD) programs, introduces key concepts and terminology and introduces the methods, approaches and formulas these programs use to determine service eligibility and reimbursement amounts.

Chapter III, A Statewide Perspective on Municipal Tax Duplication Programs, provides a statewide overview of MTD programs.

Chapter IV, Montgomery County's Municipal Tax Duplication Program's Methods and Formulas, reviews the County's methods for determining eligible services, cost of services, and payment amounts.

Chapter V, The Context for the County's Municipal Tax Duplication Program, provides program and per capita expenditures for county-only services and shared services. This chapter also provides estimates of the fiscal effects of the County's MTD rebates and the state mandate for sharing county income tax with municipalities.

Chapter VI, Municipal Stakeholder Observations, presents observations from municipal stakeholders about the County's current program and suggestions for improvement.

Chapter VII, Municipal Tax Duplication Programs in Other Counties, examines the structure of municipal tax duplication programs in Anne Arundel, Frederick, and Prince Georges' counties.

Chapters VIII and IX, Findings and Recommendations, present OLO's findings and recommendations.

Chapter X, Agency Comments, provides comments on the final draft report from the County's Chief Administrative Officer.

E. Terms and Definitions

This study of municipal tax duplication is a complex subject that uses several terms that have specific meanings. A list of terms and definitions is found in Appendix A.

F. Acknowledgements

OLO received a high level of cooperation from the many individuals who helped with this report. OLO appreciates the information shared and insights provided by all who participated. In particular, OLO would like to acknowledge the time and expertise of each of the individuals listed on the following page:

MUNICIPAL REPRESENTATIVES

- Andy Leon Harney, Village Manager, Chevy Chase Section 3
- John M. Fitzgerald, Chief of Police, Chevy Chase Village Police Department
- Julian Mansfield, Village Manager, Friendship Heights
- Mayor Peter Fosselman, Town of Kensington
- Sanford Daily, Town Manager, Town of Kensington
- Ryan Spiegel, Council Member, City of Gaithersburg
- Tony Tomasello, City Manager, City of Gaithersburg
- Monica C. Sanchez, Intergovernmental Affairs Coordinator, City of Gaithersburg
- Mayor Phyllis Marcuccio, City of Rockville
- Barbara Matthews, City Manager, City of Rockville
- Gavin Cohen, Director of Finance, City of Rockville
- Linda Moran, Assistant to the City Manager, City of Rockville
- Mayor Bruce William, City of Takoma Park
- Councilmember Kay Daniels–Cohen, City of Takoma Park
- Suzanne Ludlow, Acting City Manager, City of Takoma Park

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- Bruce Meier, Office of Management and Budget
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STATE OF MARYLAND AND OTHER COUNTIES

- Michael Sanelli, Department of Legislative Services, State of Maryland
- Trevor Owen, Department of Legislative Services, State of Maryland
- Richard Drain, Anne Arundel County
- Tanya M. Kaufmann, Frederick County
- Beth V. McCoy, Prince George's County
- Holly Sun, Prince George's County

II. Understanding Municipal Tax Duplication Programs

Municipal Tax Duplication (MTD) programs address authority, service, and funding issues that are unique to Maryland; specifically, double taxation issues that arise when counties and municipalities deliver similar services. The Institute for Governmental Services at the University of Maryland (IGS) and the Maryland Municipal League (MML) are two organizations responsible for the design and development of MTD programs. This chapter uses key concepts from documents developed by these organizations and a report from the Maryland General Assembly to describe MTD programs, explain how they relate to state shared revenues, and introduce two MTD reimbursement formulas.[1]

A. What is Tax Duplication?

The Maryland Constitution and Code give municipalities and counties "concurrent power … to levy taxes against real property" as well as home rule authority to decide the services they want to deliver.[2] Under this arrangement, "double taxation" can occur. IGS states that "double taxation" can result: "when two different taxing authorities, a county and a municipality located within the county, levy taxes on the same property to support similar government services."[3]

The June 2012 Montgomery County Municipal Revenue Sharing Task Force Final Report describes tax duplication as follows:

> Residents of municipalities pay a property tax to their municipality and also pay the General Fund property tax to the County. Property tax is the only duplicate tax, as it is the only tax that is levied by both the County and by municipalities. Most of the General Fund property tax that municipal residents pay to the County is used to fund services the County provides to all County residents, such as the public schools and the community college, fire and rescue services, health and human services, libraries, and police for most municipalities. A portion of the General Fund property tax that municipal residents pay to the County is used to fund services the County does not provide to the municipal residents because the municipality provides the services. This portion of their property tax payment to the County is a duplicative payment.[4]

B. Legal Framework for Municipal Tax Reimbursement

The legal framework for a municipal tax reimbursement program in Montgomery County is established in both State and County law. Governance structure summaries from the 2012 Task Force Report are excerpted in this section, in addition to other key points about the governance structure.

State Law. The Maryland Code establishes a structure to address municipal tax duplication by allowing for a tax differential (i.e., a reduced County property tax rate for municipal residents) or a tax rebate (i.e., a reimbursement payment from the County to the municipality) as detailed below.

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[1] Three primary resource documents are Shandy, S. & Wilson, W. "Double Taxation and Tax Differentials in Maryland." Maryland Government Report: A Policy Research Series from The Institute for Governmental Service 3.1 (Spring 1991); The Maryland Municipal League. "Eliminating Double Taxation: The Tax Set-Off Handbook," February 1984; and Maryland Legislative Council Committee on Taxation and Fiscal Matters. "County Property Tax Rate Differential for Municipal Residents." (Annapolis, MD) 1970.
[2] Shandy and Wilson. "Double Taxation and Tax Differentials in Maryland." p. 2 and 4.
[3] Ibid. p. 2.
[4] Montgomery County, Maryland. "Municipal Revenue Sharing Task Force Final Report." June 2012, p. 18.

State Law on Municipal Tax Reimbursement

The State law governing tax duplication is set out in §6-305 of the Tax-Property Article. That section uses the term "tax setoff" instead of tax duplication. Section 6-305(a)(2) defines "tax setoff" to mean: (1) the difference between the general county property tax rate and the property tax rate that is set for assessments of property in a municipality; or (2) a payment to a municipality to aid the municipal corporation in funding services or programs that are similar to county services or programs. Section 6-305(c) requires a county to provide a tax setoff for services or programs provided by a municipality "instead of similar county services or programs." Section §6-305(d) requires a county to consider the following when determining the amount of a tax setoff: (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.

Municipal Revenue Sharing Task Force Final Report, Montgomery County, Maryland, June 2012, p. 17

§6-305 also establishes a "meet and confer" process for counties and municipalities to determine whether they agree that parallel services exist; and, if so, whether the county believes fair resolution of the double taxation issue warrants a county tax differential or tax rebate. Specifically, the law states:

> 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.

For those counties, including Montgomery, that have a state mandate to provide either a differential or a rebate, State law obligates a county to explain how it accounts for the consequences of tax duplication. Depending on the county, this can be either a subsidy created from county tax revenue paid by municipal residents for county services they do not use, or savings a county realizes because the amount it spends for services is less than what it would spend if it had to provide these services to its municipal residents.

County Law. As detailed above, State law provides counties the option of addressing municipal tax duplication with a differential or a rebate, and Montgomery County's law establishes a rebate program as described below.

A key component of the County's reimbursement law, however, is that it does not "restrict reimbursement to the portion of the cost of services that would be paid from the County's General Fund property tax revenues. Rather, it requires the County to reimburse municipalities for the County's net cost of service (i.e., the net cost of services that would be provided by the County if they were not provided by municipalities)."[5]

Tax Differentials versus Tax Rebates. While state law allows counties to choose between a tax differential and a tax rebate to address tax duplication, several perspectives exist about this choice. In a handout for a 1995 Tax Duplication Study Task Force, the Montgomery County Office of Management and Budget stated "Historically, municipal governments have preferred receiving tax duplication reimbursements as they have control over how the funds are spent; contrasted with a small tax rate differential that municipal residents would enjoy. The reimbursement style program provides a concentrated benefit to municipal governments,

[5] "Municipal Revenue Sharing Task Force Final Report." p. 18.

while a tax differential provides a disbursed benefit to municipal taxpayers. If correctly structured, the amount of funds reimbursed or County taxes not collected is equal."[6]

County Law on Municipal Tax Reimbursement

The County's municipal property tax duplication program has been in effect since 1974 and is governed by Chapter 30A of the Montgomery County Code which is entitled "Montgomery County Municipal Revenue Program." Section 30A-2 outlines the types of municipal services that qualify for County reimbursement under the program as follows:

"Municipal public services shall qualify for county reimbursement if the following conditions are met: (1) The municipality provides the service to its residents and taxpayers, (2) the service would be provided by the county if it were not provided by the municipality, (3) the service is not actually provided by the county within the municipality and (4) the comparable county service is funded from tax revenues derived partially from taxpayers in the participating municipality."

Section 30A-3 addresses how the reimbursement amount will be calculated as follows:

"Subject to the provisions of section 30A-4, each participating municipality shall be reimbursed by an amount determined by the county executive to approximate the amount of municipal tax revenues required to fund the eligible services. The amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services."

Section 30A-4 makes it clear that the County Council has the final say regarding the amount of any County reimbursement under the program. It specifically provides that "All expenditures by the county under the authority of this chapter shall be subject to the limits of the funds appropriated by the county council."

Municipal Revenue Sharing Task Force Final Report, Montgomery County, Maryland, June 2012, p. 17

The Maryland Municipal Leagues (MML) observes that "the differential assures that citizens will receive the full benefit of the lower rate and puts the tax relief up front on the county tax bill, giving each municipal taxpayer a personal stake in the continuance of the tax differential"[7] whereas a tax rebate "is favored by some municipal officials because it provides more flexibility. Since the municipality receives the benefits of the tax set-off rather than the individual taxpayer, part or all of the rebate may be retained in the budget to improve services and keep the municipal rate down."[8]

C. Service Delivery Definitions and Framework

Since municipal tax duplication programs are intended to address duplicative tax payments for similar services, this section reviews key definitions and the framework for service delivery.

Service Categories. Maryland's local governance structure requires counties to provide a particular set of mandatory services to residents, and grants counties and municipalities discretionary powers to provide other services. This report uses the terms "county-only services" and "shared services" to define these different service responsibilities.

[6] Montgomery County Office of Management and Budget. Packet for Maryland Municipal League. "1995 Tax Duplication Study Task Force" Meeting, April 4, 1995.
[7] MML, The Tax Set-Off Handbook, p. 5
[8] Ibid.

- **County-only services** are unique services provided only by counties as a result of specific mandates and authorities within State law. Municipalities are not authorized to provide County-only services. Examples of County-only services include K-12 education, the election board, the sheriff, corrections, and the state's attorney's office.

- **Shared services** are discretionary services that both counties and municipalities have the authority to provide. Examples of shared services include water and sewer services, street and highway maintenance and construction, police and fire protection, parks and recreation services, planning and zoning, and solid waste removal. If a County and municipality simultaneously fund and deliver one or more of these shared services, and property taxes are the source of funds, the potential for property tax duplication occurs.

Assigned and Unassigned Service Responsibilities. All County taxpayers are responsible for the local funding of state-imposed, county-only services while county and municipal taxpayers are separately responsible for choosing the shared services they want to fund. In each case, counties and municipalities also decide the amount and characteristics of these services. As IGS observes:

> There is no rational guide for determining which services municipalities should perform and which services counties should perform. The delivery of certain services at the county level may be more efficient due to economies of scale and the specialization of skills that a larger organization can realize. Counties also have larger tax bases and thus have greater resources to fund urban services. However, municipal governments may be most directly connected to the people they serve and may be in a position to provide the highest degree of responsiveness and accountability to the public. Therefore, the allocation of service responsibilities among counties and municipalities will likely depend upon such factors as the service demands and preferences of the resident populations, the degree of urbanization of a county, and the resources available from local tax bases.[9]

Absent any overarching guidance, a fluid and dynamic framework for shared services results, especially compared to the more stable framework for county-wide services imposed by the state. Since tax duplication programs exist to address overlaps in shared service delivery, the lack of a coherent shared services framework complicates municipal tax duplication programs.

When both a county and a municipality provide a shared service, different characteristics among the programs can make it difficult to determine how to measure the funding overlap that leads to tax duplication. For example, if a municipality chooses to fund police services that do not align cleanly with County police service delivery, it can be difficult to characterize and/or measure the municipal contribution. On the other hand, shared services where responsibilities are largely geographically determined such as street maintenance are easier to measure.

Finally, because county and municipal spending for shared services is discretionary, a county or municipality's commitment to the array or amount of services it delivers may change from year to year. Changes may come in response to a change in priorities or in response to an outside event that generates fiscal stress. Since local governments exist at "the bottom of the fiscal food chain" the reality is that shared services are those most likely to absorb the impact of economic downturns.

[9] Shandy and Wilson, p. 4.

D. Municipal Tax Duplication Programs in the Context of the State's Shared Revenue Structure

The State's shared revenue structure distributes state authorized taxes, such as county income taxes, admission and amusement taxes and recordation taxes, to counties and municipalities to support the funding of local government services. The existence of a Municipal Tax Duplication program within the context of the State's shared revenue structure raises policy issues that further complicate a complex program.

In 1970, the General Assembly's Committee on Taxation and Fiscal Matters issued a report*, County Property Tax Rate Differential for Municipal Residents* ("The Tax Rate Differential Report"). This report demonstrates that the General Assembly recognized the issues created by imposing a municipal tax duplication program on the state's shared revenue structure. Moreover, it offers guidance from the Committee about these issues, even as the state law subsequently adopted by the General Assembly intentionally gave local officials discretion to work out arrangements that address their local circumstances.

This section summarizes key parts of the Tax Rate Differential Report. It provides useful context for the Council's consideration of the County's program, and its conclusions remain relevant today.

Prior Legislative Studies. The Tax Rate Differential Report summarizes prior General Assembly efforts to address county-municipal fiscal relations from 1946, when the state shared revenue structure was initially established, to 1967 when it was reaffirmed. (See Exhibit 1).

Exhibit 1: Excerpts from the Tax Differential Report About the State's Shared Revenue System

In 1946, *the Maryland Commission on the Distribution of Tax Revenues* "established the state sharing of tax revenues with local governments and the distribution between counties and municipalities that exists today."

In 1960, the *Committee on Taxation and Fiscal Matters* made "an extensive study of State-local fiscal relationships" and concluded that "even with inequities as to means of distribution … the State shared taxes may offer an acceptable means to aid local governments."

In 1961, the *Commission on City-County Fiscal Relationships* (appointed by the General Assembly) concluded that "any adjustment in the sharing of State tax revenues could not be made without a broader review of the fiscal relationships among the State, the counties and the municipalities."[10]

In 1965, the *Commission on State and County Finance* recommended an overhaul of the State tax structure. It called for 1) replacing existing State shared revenues with a new State grant equalized on an effort and ability index; and 2) relating the distribution of the grant between counties and towns to the burden of government conducted by each unit. Subsequently, *a special legislation committee* charged with reviewing this report recommended that: 1) the distribution of the grant be based on the property tax burden; and 2) the amount of property tax used for county roads realized from the assessable base in a municipal corporation be deducted from the county tax burden and included in the municipal tax burden. The 1966 General Assembly failed to approve these recommendations.

Instead, a year later, the 1967 General Assembly adopted a tax revision program that continued the municipal share of the county income tax at the same rate as the municipal share of the State income tax and provided a State grant for police protection based on expenditures and distributed among the county and municipal corporations in relation to expenditures.

[10]Shandy and Wilson state this Commission concluded "no single solution [can] be developed to fit the varying needs of the State, but … any possible solutions must be developed on a county-by-county basis, bearing in mind the character of the respective local governments involved, the nature of services which they render, and the needs and desires of their citizens." Cited in Shandy and Wilson, p. 7.

Despite the efforts of four separate committees to make adjustments to the state shared revenue system after it was established initially, the 1967 General Assembly adopted a tax revision system that continued the municipal share of county income tax.

Existing County-Municipal Fiscal Practices. As part of its research, the Committee on Taxation and Fiscal Matters surveyed county-municipal fiscal relationship practices. Based on its review, the Committee found that "[t]he practices of sharing county property tax revenues and the fixed county grants have their roots in local law and for the most part are designed to offset any inequities arising from the maintenance of county roads."[11] It concluded that "[t]he practice of property tax rate differential needs further examination.[12] The Committee went on to caution that:

> [I]f the premise of the property tax differential is accepted as public policy, the implementation of this premise raises a number of questions as how to calculate the costs of services not provided to municipal residents and how to determine what revenues are involved.[13]

The Committee made four specific points about cost determinations, noting that:

- Street construction, maintenance and street lighting expenditures were easy to determine because these responsibilities are geographically defined.
- Expenditures for services such as police protection, fire protection and parks and recreation could be 1) supplemental, 2) a substitution of county services, or 3) a combination of both.
- For some services, e.g. refuse disposal, a municipality that provides collection and disposal may provide a more comprehensive program than a county refuse disposal program open to all residents.
- True county costs may be more than program costs if the appropriation does not reflect retirement or other administrative costs.

The Committee's observations about the allocation of revenues covered the treatment of program fees and revenues received by municipalities under the state's shared revenue system. Specifically, the Committee recommended that:

- Revenues directly related to non-municipal expenditure, such as building permit fees or recreation program fees, should be used to offset the costs of the expenditure borne by the property tax; and

[11] The Tax Rate Differential Report, p. 324.
[12] Ibid. Its review of existing practices included 1) a 20 cent county property tax rate differential in Harford County for municipal residents for expenditures for county roads and street lighting; 2) special ad valorem taxes for certain services in Montgomery and Prince Georges counties that are not imposed if the services are not offered to municipal residents; 3) Local laws in Cecil County in 1969 and Allegany County in 1970 that authorize the county to impose differential property tax rates for municipal residents; and a differential provided for two years in Anne Arundel County before it was discontinued in 1968.
[13] Ibid.

- "If the municipal corporation receives certain revenues from the State or the county for use of municipal residents *then the county should be able to apply an equivalent share of these revenues to services that benefit solely the county residents outside municipal corporations.* Such revenues would include State shared taxes such as admissions, racing, licenses and one-half of the corporation franchise tax; a share of the county income tax equivalent to .37% of the net taxable income of non-municipal residents; a share of county funds equivalent to that portion of the tax on bank shares which was retained for county purposes; and any existing grants or differentials provided by local law or local practice." (emphasis added)[14]

Conclusions and Recommendations. IGS' summary of the Tax Differential Report in its policy research report cites three Committee conclusions that remain relevant:

- ***There are instances … where the residents of municipal corporations are paying county taxes for services that are not provided to them by the county and for which they also must pay municipal taxes for the same service.*** The most easily identified service is highway maintenance. Other services that can be subject to double taxation are police protection, parks, recreation, refuse disposal, planning and zoning and mosquito control.

- ***The existing allocation of State shared taxes among counties and municipal corporations and the existing requirements for the counties to make certain revenues available to municipal corporations have created instances where municipal corporations are receiving a disproportionate share of revenues for the type of services provided***. Consequently while some municipal residents are being subject to double taxation, some municipal residents are receiving double benefit from the allocation of non-property tax revenues. In such instances the residents outside of municipal corporations are paying a higher property tax rate than they should be paying.

- ***The Committee does not believe that a state mandated property tax rate differential for municipal residents is warranted at this time. It believes that while State action could correct some inequities it might also tend to promote the uneconomical or ineffective providing of services by small units of government and limit the flexibility of transferring or merging governmental services at the local level.*** The Committee also believes because of the variation in the types of governmental services provided by the local governments that determination of the countywide nature of a service can only be made at the county level and not at the state level.[15]

Municipal Tax Duplication Methods and Formulas

A review of IGS' studies suggests that tax duplication programs must establish methods and administrative practices that answer three questions**:**

- What are the shared services that are funded by more than one jurisdiction?
- What are the costs of these shared services?
- What is the basis for the rebate payment and how much is it?

[14] The Tax Differential Report, p. 325.
[15] The Tax Differential Report, p. 330.

IGS' technical assistance studies provide numerous methodologies to help jurisdictions establish practices and formulas that answer these questions.

Identifying Parallel Funding for Shared Services. As explained earlier, Maryland law simultaneously gives counties and municipalities concurrent authority to levy a property tax and home rule authority to decide the discretionary shared services they want to deliver. When parallel spending for shared services occurs, a County must determine whether a property tax rebate is warranted. This is a two step process that consists of first determining where parallel funding for shared services exists, and then determining which of the shared service activities that have parallel funding merit designation as a reimbursable service.

This study uses the term "reimbursable services" to refer to those activities in the shared services categories where concurrent County and municipal spending provides an equivalent service. This subset of shared services consists of those activities that a County designates as eligible for a rebate through its municipal tax duplication program. This designation indicates that a County recognizes that subset of municipal services are equivalent in terms of type and cost to the shared services the County provides to its nonmunicipal residents and that the County intends to deliver these services through a shared provider system.

Since a County and its municipalities exercise their home rule authority independently, answers to the questions of 1) whether shared services exist and 2) whether these services are reimbursable are not self-evident. Moreover, answers to these questions may vary among municipalities within the same County because the services each municipality chooses to fund will differ depending on their residents' service choices and what they can afford.

Identifying Shared Services Spending and Reimbursable Services. To answer the question of where County/municipal shared services spending exists, the IGS tax differential methodology reviews jurisdictions' Uniform Financial Reports or budget documents to identify and classify service categories that have parallel County and municipal service spending. As IGS explains, "because counties and municipalities do not provide exactly the same number and type of services, one must analyze their Uniform Financial Reports to identify county services that parallel or duplicate municipal services."[16]

Service Rate Factors. A County can use the IGS' methodology to identify where parallel County and municipal funding exists for an equivalent activity; however, issues may exist if the municipal service level effort does not equal that of the County. In this case, the IGS methodology recommends the use of service rate factors. Applying a service rate factor allows the County's list of reimbursable activities to recognize those situations where the type of municipal service is equivalent to the County funded service, but the level of effort is not. IGS advises that the basis for the service rate be the level or rate at which the municipality provides the service.[17]

Cost of Services and Rebate Formulas. The heart of an MTD program is a formula that determines the amount of a County rebate or tax differential. As the MML Handbook recognizes, "selecting a formula to measure the extent of double taxation and determine the appropriate differential or rebate is the most important and most controversial part of the process."[18] MML advises that formulas "recognize all services performed by the municipality which are duplicated by the county."[19]

[16] Shandy and Wilson, p. 12.
[17] Ibid, Note 42, p.18.
[18] MML, Tax Set-Off Handbook, p. 4.
[19] Ibid.

MML stresses the importance of flexibility and it cautions against complexity. Its Handbook states:

> It is also important that the formula be flexible enough to recognize changing circumstances. A tax differential or municipal rebate program which grants municipal residents a fixed level of benefits may become less meaningful if the county greatly increases services to unincorporated areas, or if a municipality elects to expand its services. ….A fixed grant to municipalities of a specified number of dollars will eventually be eroded by inflation. Tax differentials need to be tied to a base which reflects the level of county services provided to municipal residents year by year or else be subject to review and revision at specified time periods.[20]
>
> Avoid developing a formula which is too elaborate. The county officials won't understand it, municipal officials won't understand it, and it will boil down to an argument between county and municipal accountants. The methodology is not that important anyway, because it is always, in the end, a political decision.[21]

Over the years, as part of its technical assistant services to Maryland local governments, IGS developed two general methodologies, one that uses county expenditure data and another that uses municipal expenditure data. MML observes that "while neither version can be relied on to set the exact differential or rebate, they can provide a good basis for negotiations."[22] IGS echoes the idea of a MTD program as a structured negotiation along with the idea using one or more formulas to set a floor and a ceiling to bracket the rebate amount. In a study for Ocean City, the author states:

> The results produced under IGS Approach 1 and IGS Approach 2 are meant to be the beginning points of discussion between county and municipal officials. Tax differentials are always cause for negotiations. No one but the parties can decide what might be a proper result under all the circumstances that prevail in a jurisdiction. The data presented here provide a list of services and a set of numbers to begin discussion. If the parties agree that this list of services and numerical data are more or less supportable, then the results produced here can acquire more meaning. The larger of the two reported results, for example, can be viewed as a ceiling – the maximum amount the county might consider as a tax setoff. The small of the two results might be viewed as a floor – the minimum amount the county might consider. Serious negotiations can then focus on amounts that lie between these two figures.[23]

Understanding MTD formulas and their results is critical because the formulas direct the ultimate policy outcome. To familiarize readers with these formulas, OLO summarized the step by step calculations for each approach.

The "Saved County Costs" Approach. This methodology generates a reimbursement that estimates county taxes paid by municipal residents for shared services outside municipal boundaries. For example, for transportation, the result is the county property taxes paid by municipal residents for <u>county</u> road maintenance.[24] IGS' calculation methodology can be grouped into three parts, as shown below. Exhibit 2 details the steps involved in the calculation, using transportation services as an example in certain steps.

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[20] Tax Set-Off Handbook, p. 5.
[21] Tax Set-Off Handbook, p. 13.
[22] Tax Set-Off Handbook, p. 4.
[23] Tervala, V. "Two Approaches for Computing Property Tax Differentials for Property in Ocean City, Maryland." Institute for Governmental Service, Project M-117, May 1999, p.17.
[24] Note that this approach and current County formulas both estimate saved County costs; however, they are not comparable. The County formula defines "County savings" as the amount the County would spend if it were to provide municipal services

Exhibit 2: Steps to Calculate a Municipal Tax Rebate That Reflects "Saved County Costs"

PART I: Estimated County Spending for Shared Services

- **Step 1** determines "the duplicated service expenditure" (in this case the county's transportation spending), and includes both direct and indirect costs.
  - Adjusts the direct spending to subtract county grants since the intent is to "represent the amount the county spends on services that the municipality does not receive."
  - Adjusts the indirect spending to include amounts of miscellaneous expenditures, such as employee benefits, that are attributable to the duplicated services.

PART II: Shared Service Spending Attributable to Property Taxes

- **Step 2** separates county revenue into earmarked and non-earmarked revenue, and further divides earmarked revenue into those revenues that support transportation and all other earmarked revenue.
- **Step 3** subtracts the total earmarked revenue from the Total General Fund Revenue to determine the "Non-earmarked General Fund Revenue."
- **Step 4** divides Net Property Tax Revenue into the Non-earmarked General Fund Revenue to determine the share of property tax funding.
- **Step 5** determines the amount of transportation spending attributable to property tax revenue in two steps:
  - 5a subtracts the earmarked revenue for transportation (from Step 2) to find out the amount of transportation spending funded by non-earmarked revenue; and
  - 5b multiplies this result by the property tax share (from Step 4) to find out the amount of shared service spending attributable to property taxes.

PART III: Tax Differentials and Tax Rebate Amounts

- **Step 6** divides the shared service spending attributable to property taxes (Step 5b) by the unincorporated tax base/100 to calculate the tax differential.
- **Step 7** multiplies the shared service spending attributable to property taxes (Step 5b) by the city tax base/100 to calculate the reduction in the city tax rate.
- **Step 8** has two parts:
  - Step 8a multiplies the reduction in the city tax rate (from Step 7) by the city tax base/100 to find out the county revenue shortfall; and
  - Step 8b divides the county revenue shortfall by the unincorporated tax base/100 to find out the tax rate increase for unincorporated residents.
- **Step 9** multiplies the tax differential (from Step 6) by the city tax base/100 to determine the total tax rebate.
- **Step 10** divides the total tax rebate (from Step 9) by the county tax base/100 to determine the addition to the county tax rate.

Source: OLO and IGS Project M-117.

at the County's service level. This approach defines "County savings" as the amount municipal taxpayers spend for county road maintenance outside municipal boundaries.

The Municipal Replacement Costs Approach. This methodology estimates a tax rebate based on the assumption that tax revenues from non-municipal property owners replace municipal expenditures. IGS' calculation methodology can be grouped into three parts, as shown below. Exhibit 3 details the steps involved in the calculation, using transportation services as an example in certain steps.

Exhibit 3: Steps to Calculate a Tax Rebate That Reflects "Municipal Replacement Costs"

PART I: Estimated Municipal Spending for Shared Services

- **Step 1** determines "the duplicated service expenditure" (in this case **a municipality's** transportation spending), and includes both direct and indirect costs.
  - The direct spending reflects on duplicated service costs.
  - The calculation for indirect costs finds the ratio of duplicated service costs to all direct program costs and applies that share to the general government expenditures to reflect the administrative and overhead costs attributable to the duplicated service costs.
  - The direct and indirect costs together represent total municipal spending on shared services.

PART II: Shared Service Spending to be Supported by Property Taxes

- **Step 2** reviews a schedule of municipal revenues to determine "the amount of municipal revenue that would revert to the county in the event [the municipality] no longer provided the duplicated services. These revenues could include intergovernmental revenues from the State or County or program service charges.
- **Step 3** subtracts the revenues that would revert to the county from the expenditures for duplicated services (from Step 1) to determine the net transportation expenditures.
- **Step 4** divides the net expenditure by the county tax base/100 to determine the county tax rate increase that would fund the net expenditure amount.

PART III: Tax Differentials and Tax Rebate Amounts

- **Step 5** determines the amount of new property tax revenue the county tax rate increase (from Step 4) would generate from city taxpayers. This amount equates to the new service cost for city taxpayers if the county were to provide the services.
- **Step 6** subtracts the new service cost (from Step 5) from the net expenditure amount (from Step 3) to determine the savings city taxpayers would realize. As characterized by this IGS methodology, this amount also represents 1) how much city residents are overpaying for services and 2) the county revenue shortfall.
- **Step 7** divides the amount of "overspending" (from Step 6) by the city tax base/100 to calculate how much the county tax rate paid by municipal residents would be reduced to refund their savings to them.
- **Step 8** divides the unincorporated tax base/100 into the county revenue shortfall (from Step 6) to calculate the higher rate the county would have to levy on property owners outside the municipality to fund the county the revenue shortfall.
- **Step 9** adds the new county municipal tax rate (from Step 7) and the new county non-municipal tax rate (from Step 8) together to determine the tax differential.
- **Step 10** multiplies the tax differential (from Step 9) by the city tax base/100 to determine the municipal tax rebate.

Source: OLO and IGS Project M-117.

III. A Statewide Perspective on Municipal Tax Duplication Programs

Eighteen of Maryland's counties have municipal tax duplication programs that provide tax differentials or tax rebates to 138 municipalities. In FY12, the value of these programs totaled $102.5 million; $81 million from tax differentials and $21.4 million from tax rebates. Approximately 93% of the state's municipal residents reside in a municipality that participates in a tax duplication program.

Despite their prevalence, municipal tax duplication programs across the State vary widely. This chapter uses data from *Property Tax Set-Offs: The Use of Local Property Tax Differentials and Tax Rebates in Maryland Fiscal 2012* ("the Tax Set-Off Report"), a report published annually by the Department of Legislative Services (DLS), to show that variation. It is organized as follows:

- **Part A** displays the total value of municipal tax duplication program by County from FY07 through FY12; and
- **Part B** presents data on per capita rebates and the type of shared services being reimbursed for the state's 25 most populous municipalities.

A. Voluntary and Mandatory Programs

The administrative structure for the municipal property tax rebate program in State law creates two classes of counties: 1) counties that must provide a tax differential or rebate, and 2) counties that may provide a tax differential or rebate. Of the 23 Maryland counties, seven have mandatory programs and 11 have voluntary programs as listed in the exhibit below. The remaining counties either do not have any municipalities (Howard and Baltimore) or have chosen not to implement a tax duplication program (Queen Anne's, Wicomico, and Worcester).

Exhibit 4: Maryland Counties with Municipal Tax Duplication Programs

Mandatory Programs	Program Type*		Voluntary Programs	Program Type*	
	Differential	Rebate		Differential	Rebate
Allegany	✓		Calvert	✓	
Anne Arundel	✓		Caroline	✓	
Frederick		✓	Carroll		✓
Garrett	✓	✓	Cecil		✓
Harford	✓	✓	Charles	✓	
Montgomery		✓	Dorchester	✓	✓
Prince George's	✓	✓	Kent		✓
			Somerset		✓
			St. Mary's		✓
			Talbot	✓	
			Washington	✓	

*As of 2012. Source: OLO and DLS

Table 3-1 displays trends in rebates or reimbursements since FY07 for the 18 counties that have property tax duplication programs. Counties are organized based on whether their program is mandatory or voluntary, and the table displays each county's share of municipal population. The data show:

- Among the seven counties with mandatory programs, those with the highest reimbursements were Prince George's ($33.1 million), Anne Arundel ($26.2 million), Frederick ($7.4 million) and Montgomery ($6.3million).

- Six of the seven counties with mandatory programs saw their rebates or tax differentials increase since FY07; the only decline was in Montgomery County. Prince George's saw a $17 million increase (from $16.1 million in FY07 to $33.1 million in FY12).

- Three counties with voluntary programs have a relatively small proportion of municipal residents, but a large variation in total rebate amounts. St. Mary's County had the fewest municipal residents (3%) and the lowest rebate amount in FY12 ($55,230). In Calvert and Charles counties, municipal residents account for 9% of the population while their FY12 rebates were $3.3 million and $1.1 million respectively.

- Seven counties with voluntary programs have a relatively high proportion of municipal residents, and their rebate amounts vary as well. For example, in FY12:

    - Cecil and Carroll counties, both with 29% municipal residents, had rebates of $836,000 and $2.4 million respectively; and
    - Dorchester County (with 49% municipal residents) and Talbot County (with 50%) had rebates of $362,000 and $3.9 million respectively.

Table 3-1: Statewide Profile of Municipal Tax Duplication Program Rebates and Tax Differentials, FY07 to FY12

County (# of municipalities in the MTD program)	% Municipal Population	FY07	FY08	FY09	FY10	FY11	FY12	FY07-FY12 Change $ Value	FY07-FY12 Change %
Mandatory Programs									
Allegany (7)	45%	$931,935	$967,408	$1,058,874	$1,204,375	$1,314,728	$2,134,055	$1,202,120	129%
Anne Arundel (1)	7%	$19,614,189	$23,536,241	$26,576,259	$25,314,437	$25,583,433	$26,196,505	$6,582,316	34%
Frederick (12)	42%	$6,012,915	$6,581,698	$7,393,431	$6,601,768	$7,402,079	$7,402,079	$1,389,164	23%
Garrett (7)	23%	$136,012	$242,137	$276,206	$227,125	$263,264	$278,224	$142,212	105%
Harford (3)	16%	$6,441,297	$7,581,034	$8,778,392	$9,472,742	$9,358,019	$9,659,678	$3,218,381	50%
Montgomery (20)	17%	$7,438,235	$7,438,235	$7,424,836	$7,482,613	$6,352,936	$6,371,842	-$1,066,393	-14%
Prince George's (27)	27%	$16,085,835	$21,922,277	$28,241,074	$34,275,316	$38,471,366	$33,102,607	$17,016,772	106%
Voluntary Programs									
Calvert (2)	9%	$2,365,852	$2,696,158	$3,268,735	$3,704,026	$4,153,934	$3,306,182	$940,330	40%
Caroline (10)	37%	$727,333	$883,927	$1,024,121	$1,046,937	$1,077,916	$549,085	-$178,248	-25%
Carroll (8)	29%	$2,048,180	$2,145,793	$2,232,534	$2,331,479	$2,364,423	$2,378,303	$330,123	16%
Cecil (8)	29%	$550,898	$684,484	$750,269	$813,452	$832,861	$837,572	$286,674	52%
Charles (2)	9%	$472,399	$908,329	$1,052,643	$913,414	$1,132,817	$1,125,822	$653,423	138%
Dorchester (9)	49%	$69,000	$198,664	$462,003	$461,729	$455,441	$361,729	$292,729	424%
Kent (5)	40%	$148,245	$164,945	$164,945	$185,633	$195,986	$193,341	$45,096	30%
Somerset (2)	23%	--	--	$300,000	$300,000	$300,000	$300,000	$300,000	
St. Mary's (1)	3%	$53,796	$55,780	$55,780	$64,425	$66,659	$52,230	-$1,566	-3%
Talbot (5)	50%	$2,301,956	$3,046,713	$3,655,166	$4,076,993	$3,869,879	$3,865,485	$1,563,529	68%
Washington (9)	36%	$1,561,700	$1,821,506	$1,906,923	$1,988,255	$5,129,101	$4,335,015	$2,773,315	178%
TOTALS		**$66,959,777**	**$80,875,329**	**$94,622,191**	**$100,464,719**	**$108,324,842**	**$102,449,754**	**$35,489,977**	**53%**

Source: OLO and DLS.

B. Municipal Tax Duplication Programs for the 25 Largest Cities

Table 3-2 (on the next page) presents municipal reimbursement and rebate data for the 25 largest cities in the state. Eighteen of these cities are in counties with mandatory programs, while the remaining seven are in counties with voluntary programs. In FY12:

- On a per capita basis, Annapolis received the largest reimbursement (valued at $674 per person) while College Park ($14 per person) and Gaithersburg ($17 per person) received the smallest reimbursements.

- The most heavily represented service areas were police (20 municipalities), public works (12 municipalities) and code enforcement (10 municipalities).

- Among the mandatory programs, eight Prince George's County municipalities provided the highest number of services (ranging from 7 to 9 services), followed by two Allegany County municipalities (6 services), Annapolis (5 services), and three Montgomery County municipalities (3 to 4 services).

- The cities of Frederick, Rockville, Gaithersburg and Bowie are the four largest municipalities in the state; however, Bowie's per capita reimbursement rate ($176 per person) was roughly six times that of Rockville's ($30 per person) and ten times that of Gaithersburg's ($17 per person). The City of Frederick's per capita reimbursement was $76.

Table 3-2: FY12 Reimbursement per Capita and Types of Shared Services Delivered in 25 Largest Municipalities

County	City	Population	Per capita MTD Reimb.	Animal Control	Code Enforcement	Crossing Guards	Elderly Services	Emergency Services	Fire	Highway Construction/ Maintenance	Housing and Community Development	Human Relations Commission	Library	Parks and Recreation	Planning/Zoning /Growth Mgmt.	Police	Police Dispatch	Public Works	Road Maintenance	Solid Waste Services	Street Lighting	Traffic Control	TOTAL
Mandatory Programs																							
AA	Annapolis	38,880	$674						✓					✓	✓	✓		✓					**5**
AL	Frostburg	8,962	$54					✓		✓					✓	✓		✓		✓			**6**
	Cumberland	20,739	$70					✓		✓					✓	✓		✓		✓			**6**
FR	Frederick	66,169	$76											✓	✓	✓							**3**
HA	Bel Air	10,187	$315													✓			✓				**2**
	Havre de Grace	13,040	$254													✓			✓				**2**
	Aberdeen	15,063	$208													✓			✓				**2**
MO	Takoma Park	17,021	$150			✓								✓		✓			✓				**4**
	Gaithersburg	61,045	$17	✓			✓												✓				**3**
	Rockville	62,334	$30	✓			✓					✓							✓				**4**
PG	Mount Rainier	8,155	$87				✓						✓			✓	✓	✓			✓	✓	**7**
	Bladensburg	9,223	$87				✓				✓					✓	✓	✓			✓	✓	**7**
	New Carrolton	12,248	$100	✓			✓	✓	✓		✓					✓		✓			✓	✓	**9**
	Hyattsville	17,718	$193	✓			✓				✓					✓	✓	✓			✓	✓	**8**
	Greenbelt	23,281	$168	✓			✓		✓		✓					✓	✓	✓			✓	✓	**9**
	Laurel	23,346	$219	✓			✓		✓		✓					✓	✓	✓			✓	✓	**9**
	College Park	30,587	$14	✓			✓		✓		✓							✓			✓	✓	**7**
	Bowie	55,232	$176	✓			✓		✓		✓					✓		✓			✓	✓	**8**
Voluntary Programs																							
CE	Elkton	15,531	$26													✓				✓	✓		**3**
CH	La Plata	8,896	$118											✓	✓	✓		✓					**4**
CR	Mount Airy	9,349	$43																				
	Westminster	18,606	$48																				
DO	Cambridge	12,335	$23												✓	✓							**2**
TA	Easton	16,047	$179		✓									✓	✓	✓							**4**
WA	Hagerstown	39,890	$80											✓	✓	✓		✓					**4**
	TOTAL	**613,884**	**$180**	**8**	**1**	**1**	**10**	**3**	**6**	**2**	**6**	**1**	**1**	**6**	**8**	**20**	**5**	**12**	**6**	**3**	**8**	**8**	

Source: OLO and DLS.

IV. Montgomery County's Municipal Tax Duplication Program's Methods and Formulas

Montgomery County's 22 municipalities and special districts have 162,162 residents that account for 17% of the County's population. Rockville, Gaithersburg and Takoma Park rank second, third and thirteenth respectively among the state's 25 largest cities. The County's tax duplication program covers all but two of its municipalities, and it provides rebates for road maintenance and other services to varying degrees.

As stated in Chapter II, a review of IGS' studies suggests that tax duplication programs must establish methods and administrative practices that answer three questions**:**

1) What are the shared services that are funded by more than one jurisdiction?
2) What are the costs of these shared services?
3) What is the basis for the rebate payment and how much is it?

This chapter reviews County law and program documents and practices to understand the methods Montgomery County's program uses to address these three questions. It is organized as follows:

- **Part A** briefly reviews the early history of Montgomery County's program;
- **Part B** describes the County's methods for determining its list of reimbursable services;
- **Part C** describes the County's methods for determining the costs of its reimbursable services; and
- **Part D** explains the County's methods for determining its rebate payments.

A. History

Section 30A-1 of the County Code establishes "a program to reimburse municipalities within the county for those public services provided by the municipalities which would otherwise be provided by the county government."

As the Council's Government Operations Committee discussed last fall, the County's program was proposed by County Executive Gleason who had directed his budget staff to work with representatives from the local chapter of the Maryland Municipal League to address their concerns about double taxation. The County law took effect in August 1973.[1] The MML Tax Set-off Handbook notes that "between FY74-FY77, the County reimbursed the municipalities a total of $1.57 million, but that the distribution formula was complicated, controversial and occasionally not fully funded by the County."[2] Three subsequent County task force reports (one in 1978, one in 1982 and one in 1996) recommended additions and deletions to both the list of reimbursable services and the reimbursement formulas.

MML also notes that Montgomery County has "a series of special area taxes, closely related to the concept of direct tax differential under which citizens are taxed only for services actually provided to them by a particular level of government. …Special area taxes are used to fund services such as Metro rail and bus systems, recreation, fire service, storm drainage and land acquisition."[3]

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[1] OLO did not locate documentation for the program's initial methods and formulas. The Gleason report provides sample calculations; however, these were based on the municipal replacement cost approach and they provided for a minimum grant. Neither this cost approach nor the provision for a minimum grant were included in the law that was finally enacted.
[2] MML Tax Set-Off Handbook, p. 11.
[3] Ibid. These special area taxes were also noted by the General Assembly's Committee on Taxation and Fiscal Matters Tax Rate Differential Report. See Note 13 in Chapter II.

B. The County's Methods for Determining Reimbursable Services

As explained in Chapter II, a determination of shared services is a useful pre-requisite to establishing a list of reimbursable services; however, the question of whether parallel spending for shared services exists is not self-evident. Moreover, within the same County, the types and number of shared and reimbursable services can vary among municipalities because the services each municipality chooses to fund differ in size and scope.

The IGS methodology recommends an analysis of County and municipal financial reports to identify County/municipal service alignments. In Montgomery County, three factors - the criteria in County law, review and recommendations from periodic task forces, and subsequent Council resolutions - govern how the County makes its determinations of reimbursable services. This section examines Council Resolutions through the four criteria established in County law to assess how the County's methodology works in practice.

County law. Section 30A-2, *Qualification of municipal public services for county reimbursement*, states: "Municipal public services shall qualify for county reimbursement if the following conditions are met:

(1) the municipality provides the service to its residents and taxpayers;
(2) the services would be provided by the county if it were not provided by the municipality;
(3) the service is not actually provided by the county within the municipality; and
(4) the comparable county service is funded from tax revenues derived partially from taxpayers in the participating municipality."

Exhibit 5 (on the next page) displays definitions of reimbursable services from Council Resolutions adopted in 1978, 1982 and 1996 to understand how the County's methodology identifies County/municipal service alignments.

Two interesting patterns emerge from reviewing the various resolutions: the first is ongoing references to reimbursements based on "County funding from property tax expenditures" and the second is an ebb and flow of eligibility for reimbursement for different services. These patterns suggest a lack of clarity has developed over the years concerning how the four conditions established in the law are interpreted and/or implemented in administering municipal tax duplication programs. Specifically, the law does not prescribe a specific formula, methodology, or structure for administering the MTD program and as a result does not recognize how shared services are funded (e.g., that special tax districts exist) or explicitly articulate a policy about how the County intends for its shared services to be provided (e.g., that blended service arrangements could be permitted). There are four specific issues with the law leading to the lack of clarity and varying interpretations.

<u>Issue #1 – Whether or not the County would provide a service if a municipality does not (Condition 2).</u> In contrast to the IGS methodology, which uses existing expenditures to define the existence of parallel services, Condition 2 allows the County to **not** provide a rebate in the present based on its own conclusion about a future condition (i.e., the County can determine it would not provide a service if it were not provided by a municipality and thus not reimburse for that service). The original legislative intent of Condition 2 is unclear. It might have been intended to guard against County rebates for supplemental municipal services or it might have been intended to convey that reimbursement costs were to be based on a County savings approach.

Exhibit 5: Changes to the Municipal Revenue Sharing Program by Council Resolution, 1978-1996

Council Resolution 8-222, adopted October 17, 1978

- Established a road reimbursement formula based on the County's funding per mile from property taxes for the operation and debt service of non-municipal County roads.[4]

Council Resolution 9-1752, adopted April 27, 1982

- Revised the road reimbursement formula; [5]
- Added a police reimbursement formula;[6]
- Added reimbursements for planning and zoning powers based on County property tax expenditures for the Hearing Examiner, the Board of Appeals and the Code Enforcement Sections of various departments with distributions calculated on a per parcel of land basis;
- Added reimbursements for housing-related services based on County property tax expenditures for weed control, rodent control and landlord-tenant services with distributions to municipalities calculated on a per dwelling unit basis;
- Added reimbursements for animal control with reimbursements based on County property tax expenditures excluding costs for the Animal Shelter with distributions based on the number of dwelling units;
- Recommended reimbursements beginning in 1983 for the City of Gaithersburg's consumer affairs services and the City of Rockville's Human Rights Commission; and
- Recommended study of Takoma Park reimbursements for police protection, parks maintenance and development, and library services.

Council Resolution 13-650, adopted September 10, 1996

- Revised the road reimbursement formula by replacing the determination of costs attributable to property tax revenue with a methodology that equated the share of "tax supported revenue" with total revenues minus the ratio of Highway User Revenues to Net Transportation Expenditures;
- Continued the code enforcement reimbursement formula based on net County property tax supported code enforcement expenditures distributed on a per dwelling or per parcel basis;
- Discontinued police reimbursements for Rockville, Gaithersburg and Chevy Chase Village;
- Maintained the park maintenance reimbursement formula; and
- Maintained all other services based on net County property tax supported expenditures.

Source: Council Resolutions and Task Force Reports, 1978, 1982 and 1996.

[4] 1982 Task Force Report, dated April 8, 1982. "County Council Resolution 8-222, adopted October 17, 1978, established the present formula for reimbursing the municipalities and special taxing districts for street and road related expenditures. Essentially, this formula calculates the County's funding per mile from property taxes for the operation and debt service of non-municipal County roads." p. 3.

[5] The four revisions to the road reimbursement formula were: 1) to allocate TRSA revenue to both mass transit and highways in proportion to the amount of property tax revenues collected by the County for each purpose; 2) to exclude debt service costs for METRO and landfill access roads from the cost calculations; 3) to include investment income as a revenue offset; and 4) to include 10% of County traffic engineering costs since they are not uniform across the municipalities and special taxing districts.

[6] Council Resolution 9-1752 addressed police aid, in part because the State instituted a supplemental police grant (equal to $2 per capita) and the State Code required the County to allocate and distribute a portion of this aid to qualifying municipalities. The Council Resolution reflected the Task Force recommendation to distribute the entire grant to Takoma Park, which was solely responsible for its police services. It recommended that rebates for Chevy Chase Village, Gaithersburg and Rockville use a formula weighted equally between population and number of sworn officers, with the population reimbursement being 80 cents of the $2 grant since the patrol function represented about 40% of the County's police budget.

Issue #2 – Precluding County/municipal service partnerships (Condition 3). As it is currently worded (i.e., service is not actually provided by the county within the municipality), Condition 3 precludes County/municipal service partnerships. As a result, absent a conceptual framework that recognizes service rates or partial service levels, current County law provides no recognition of municipal expenditure contributions that are not full service substitutes.

Issue #3 – Tax revenues vs. property tax expenditures. The reference in Condition 4 to "tax revenues derived partially from taxpayers in the participating municipality" does not explicitly limit MTD calculations or methodologies to property tax revenues. At the same time, the calculations that accompanied the original Gleason report and all three Task Force reports contain numerous, explicit references to reimbursements based on County property tax expenditures and from 1982 to 1996, property tax revenue was the basis for the reimbursement. As an example, the introduction to the 1982 Task Force report states:

> The general principles which the Task Force used are those outlined in Chapter 30A of the Montgomery County Code. These include:
>
> - the service is provide by the municipality or special taxing district in lieu of being provided by the County;
> - the reimbursement shall be limited to the amount the County would expend if it were providing the service within the municipality or special taxing district; and
> - the reimbursement is for *property tax duplication*, and is, therefore, limited to expenses financed with *property tax revenues paid by all County taxpayers*. (emphasis added)

The disconnect between the reference in Condition 4 of the law to "tax revenues" and multiple Task Force Report references to "property tax expenditures" creates ambiguity about the law's intent and purpose. This is further compounded by formulas that do not in fact calculate expenses attributable to property tax revenues.

Issue #4 – Application of the MTD law to special district tax revenues. Condition 4 does not explicitly address whether the law intended for the County to issue rebates for programs funded with special area property tax revenues. As MML's history notes, a defining characteristic of the County's service structure is its use of special area taxes to fund services that otherwise could be a source of tax duplication. Neither County nor municipal boundaries can be redrawn to address the duplicative taxation issues that arise in the general fund because general fund revenues pay for a bundled package of mandatory and discretionary services, instead of a discrete, discretionary program. In contrast, special area tax districts provide this opportunity and have the advantage of resolving a recurrent issue with a one-time solution.

A Review of Determinations for Police Services. The County methodology that results from the application of this law has led to varied application and interpretation over the years. The issue of whether police services in Gaithersburg, Rockville and Chevy Chase Village qualify as reimbursable services illustrates this variability.

In 1982, the State approved a supplemental police grant of $2 per capita for each county and required the county to allocate and distribute part of the grant to its municipalities. The 1982 Task Force noted that municipalities received basic police aid directly from the State. The formula for this supplemental aid used each jurisdiction's proportion of actual police expenditures to reimburse municipalities for their contribution to total police protection and account for service level variations. The Task Force explained that Chevy Chase Village, Gaithersburg and Rockville "provide supplemental patrol services; they do not have the full range of services provided by the County police; it is estimated that about 40% of the County police budget is for patrol services."[7]

The Task Force discussed three alternative allocation formulas: population, number of sworn officers, and the State formula for basic police aid. The formula it recommended that was subsequently approved by the Council:

- Provided the $2 per capita supplemental grant to the City of Takoma Park because the County did not provide police services within the city limits;

- Calculated the reimbursement for Chevy Chase Village, Gaithersburg and Rockville with a formula weighted equally between population and number of sworn officers. The reimbursement for population was set at 80 cents of the $2.00 grant since the municipalities provided essentially patrol service and the patrol function represented about 40% of the County's police budget. The use of the number of sworn officers was a measure of level of effort.[8]

The County reimbursed the municipalities for patrol services using this formula until the 1996 Task Force disqualified these services as eligible for reimbursement. The 1996 Task Force report made no reference to changes in revenue, e.g., the State's supplemental police grant, or changes in municipal expenditures for police service as the basis for its decision. Instead, after review of County and municipal staffing and dispatches, its decision was based on concluding that "[since] the County does not currently use the presence of Gaithersburg, Rockville and Village of Chevy Chase police forces in determining their resource and beat allocation formulas, no duplication reimbursement is recommended."[9]

The Task Force report explained that the decision to disqualify these services rested, in part, on "the amount the County would spend to provide the service;"[10] however, this is the basis for setting the reimbursement amount, not one of the four specified eligibility conditions. The effect of using the basis for the reimbursement amount as a new eligibility condition allowed the County to characterize the services as supplemental and use this to justify not recognizing the municipal expenditures. The 1996 Task Force report's explanation of the County's reasoning states:

> [T]he basis for the reimbursement program should be the amount the County would spend to provide a duplicated service rather than the amount spent by a municipality to provide a service. The County reasons that if the municipalities no longer provided police services to their residents, the County would expend the same dollar amount now expended countywide and provide a somewhat lower level of service countywide. That is, the County police would not necessarily provide the same level of service that either municipal or other County residents receive today. Using this reasoning the municipal police services is a supplemental rather than a duplicated service. Therefore, we recommend no duplication reimbursement be made at this time.[11]

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[7] Report of the Task Force on County-Municipality Financial Relationships and Revisions to the County's Municipal Revenue Program. Attachment to Council Resolution 9-1752, p. 6.
[8] 1982 Task Force Report, p. 6-7.
[9] Tax Duplication Task Force Final Report, June 5, 1996. Cited in Appendix 7 of the Municipal Revenue Sharing Task Force Final Report, June 2012. p. 7-2.
[10] Ibid, p. 7-14.
[11] Ibid.

The Results of Applying the County's Current Methodology. The County's tax duplication program currently reimburses for ten services shown in Exhibit 6 The service types with the largest municipal coverages are: animal control, road maintenance and senior transportation. For the other seven services, more than 97% of County residents, including municipal residents, use the County as their service provider. This list of reimbursable services is incomplete without addressing the police service issue discussed earlier. Nonetheless, even with police services included, the picture that emerges from Exhibit 6 shows that Montgomery County currently operates largely as a full-service county.

Exhibit 6: Current List of Reimbursable Services and Municipal Providers

Item	Reimbursable Services	Municipal Providers	% of County population served by: The County	A Municipality
1	Animal Control	Rockville Gaithersburg	87.6%	12.4%
2	Board of Appeals	Town of Chevy Chase	99.7%	0.3%
3	Crossing Guards	Takoma Park	98.3%	1.7%
4	Hearing Examiner	Town of Chevy Chase	99.7%	0.3%
5	Human Rights	Rockville		
6	Park Maintenance	Chevy Chase Sec. 3 Town of Chevy Chase Friendship Heights Kensington Takoma Park	97.2%	2.8%
7	Police	Takoma Park	98.3	1.7%
8	Road Maintenance	All Except Barnesville	86.6%	13.4%
9	Senior Groceries	Friendship Heights	99.5%	0.5%
10	Senior Transportation	Friendship Heights Gaithersburg Rockville	87.1%	12.9%

Source: OLO and OMB.

C. The County's Methods for Determining Costs of Service

As described in Chapter II, IGS' tax differential methodology for determining costs of service consists of steps to calculate total county expenditures, including factors that adjust for overhead and administrative costs, and steps to net out parallel service, non property tax revenues (both earmarked and general) to indirectly determine the amount of property tax revenue that funds a parallel service.

IGS recommends the use of service rates for those cases where "municipalities may not fully provide each service in lieu of a parallel county service. In such cases, the municipality may be entitled to partial but not full credit for providing these services."[12] IGS' tax differential methodology also distinguishes between calculations to determine costs of service and those that establish the property tax differential or equivalent rebate amounts.

The County's methodology follows steps to calculate costs of service; unlike IGS' tax differential methodology, it does not have subsequent steps to calculate a property tax differential and an equivalent rebate amount. Despite their differences, the steps in the IGS methodology that address costs of service are useful for assessing the County's costs of service formulas.

County Law and Task Force Reports. Section 30A-3 of the County Code assigns the responsibility for a cost of service methodology to the County Executive. The Office of Management and Budget (OMB) has lead responsibility. A review of Council staff files finds numerous documents and memoranda that show, over the years, OMB staff have periodically conducted comprehensive reviews of the County's reimbursement formulas.

Task Force reports also serve as reference guides for reimbursement formulas. In an attachment to a February 2001 memorandum responding to City concerns about the Takoma Park Police rebate formula, OMB explained that the County's MTD payments for FY01 and for the County Executive's FY02 Budget were based on recommendations in the 1996 Tax Duplication Task Force Final Report. OMB added "this report is not more specific about calculations for the Takoma Park Police payment other than: 1) using actual net County expenditures for two prior years; and 2) using the standard of the expenditures that would be incurred had the County provided the service."[13]

Methods. OMB's methods for calculating Municipal Tax Duplication reimbursement amounts rely on three types of cost formulas depending on the specific services: adjusting prior year payments for inflation, using unit cost formulas, and using personnel cost/workload factor formulas. Below is a brief review of the key formula features for the different service types (see Appendix P for documentation of the formula calculations), plus two additional Takoma Park rebates, one for library and one for police services. In contrast to the MTD full-cost formulas, the Takoma Park rebate amounts are based on duplicative property taxes with methodologies established in the County Code.

- **Park Maintenance**. According to the 1996 Task Force Report, the park maintenance formula was originally based on a cost accounting system that M-NCPPC stopped using in FY88. Since then, the County has used the 1988 figure plus an inflator. The 2012 Municipal Revenue Sharing Task Force Report decided to update this formula. A subcommittee conducted a review of all municipally owned parks, determined that a number of municipalities that operate municipal parks do not receive a tax duplication payment even though their residents pay the Park Tax, and developed a new payment methodology that was endorsed by the Task Force. The new methodology establishes a classification system and applies a unit cost approach based on average costs per acre. As the Task Force Report describes it:

  > The model is based on classifying municipal parks into the M-NCPPC park categories as defined in the Parks and Recreation Open Space Plan (PROS Plan) for community use parks. The payment would equal M-NCPPC's average cost per acre by park type as calculated by M-NCPPC's SmartParks System, times the number of acres in the municipal park. A capital

[12] Shandy and Wilson, p. 12.
[13] Memorandum dated May 10, 2001 to County Council from Charles H. Sherer, Legislative Analyst. Recommendation from the Management and Fiscal Policy Committee regarding the Executive's amendment to the FY02 Operating Budget for the Municipal Tax Duplication NDA for Takoma Park regarding police services ($139,870). Agenda #7.1 May 14, 2001, ©7.

renovation factor is proposed for specific capital improvements, including playgrounds, basketball courts, and tennis courts based on M-NCPPC's cost experience. An administrative overhead factor was also added based on the M-NCPPC's cost for second level supervisors not captured in the SmartParks system.[14]

- **Road Maintenance**. The current road maintenance formula uses adjusted county costs to calculate unit cost factors for road maintenance, storm damage, roadway resurfacing, traffic signs, traffic lights, streetlights, traffic signals, bridges and pedestrian bridges. The DOT costs include both operating and debt service expenditures, plus adjustments to incorporate some overhead costs.

  A separate formula adds select DOT tax-supported operating expenditures and debt service, and subtracts other revenues, except for the State Highway User Revenues, to determine a net tax supported cost. It calculates the ratio of State Highway User Revenues to the net tax-supported cost and subtracts this ratio from 100% to determine the Tax-Supported Factor.

  This approach multiplies each unit cost by the municipality's relevant mileage or equipment count; adds the results and multiplies the total by the Tax Supported Factor to determine each municipality's rebate amount. See Appendix P for a worksheet that explains the steps that make up this calculation.

  The 2012 Task Force discussed but did not reach agreement on a new road maintenance methodology. Areas of disagreement include the portion of overhead costs the formula should capture, the treatment of Highway User Revenues, the display of the tax duplication payment in the budget book, and whether interest costs associated with debt financing should be included along with capital project expenditures.

- **Other Services.** For each of the other reimbursable services (planning and zoning, animal control, human rights, senior transportation and senior grocery services) the County calculates the rebate amount as follows:

  - **Step 1** determines "net tax supported costs" defined as the County program expenditures minus any earmarked program fees, grants or revenues;
  - **Step 2** determines a per capita cost for the County; and
  - **Step 3** multiplies the net per capita cost by the population of the municipality that provides a substitute service to determine the rebate amount.

  As an example**, for the Planning and Zoning Reimbursement** provided to the Town of Chevy Chase, OMB subtracts fee revenues from program expenditures for the County's Board of Appeals and the Hearing Examiner to calculate the net tax-supported cost. This result is divided by the County population to determine a per capita cost. The reimbursement amount is the per capita cost multiplied by the population of the Town of Chevy Chase.

- **Takoma Park Crossing Guards.** This formula uses net program costs to calculate a cost per position and multiplies that amount by the number of crossing guard positions the County provides.

[14] Municipal Revenue Sharing Task Force Report, p. 37.

- **Takoma Park Police Services.** There are two rebates for Takoma Park Police Services, a property tax rebate and an MTD rebate:

  - County Code Section 35-5, *Takoma Park Rebate*, requires a County rebate payment to the City for police services where the tax rates are pre-set in the Code at 4.8 cents for real property and 12 cents for personal property. These rates are applied to the City's assessable tax base to determine the rebate amount.

  - The County and Takoma Park signed a Memorandum of Understanding (MOU) regarding the County's rebate payment for police services in 2002. This MOU followed two years of conversations between OMB and Takoma Park on the rebate formula.[15]

    Under the 2002 MOU, the rebate is based on a cost of services method using the following data:
    - Staffing resources, i.e. the number of police officers the County would provide for both patrol and investigations;
    - Personnel costs, based on salaries and benefits from the prior year personnel report;
    - Any negotiated general wage adjustments and service increments in effect in the prior year budget;
    - The annual budgeted cost per officer for ongoing supplies and equipment;
    - The estimated number of officers required for patrol from the County's staffing workload model;
    - Reductions from the telephone reporting unit (7.5%) and false alarm reduction unit (5.5%);
    - Supervision costs;
    - Investigator costs; and
    - Amortized vehicle costs.

The methodology includes deductions for the Takoma Park Police Rebate and State Aid for Police Protection, but not for that portion of State Aid for the number of City Officers that exceeded the number the County would use for providing services to Takoma Park. Instead of adjusting for inflation, the methodology was based on current approved budget costs.

Notwithstanding the specificity of the 2002 MOU, the formula for the Takoma Park Police rebate has been a source of ongoing negotiation. In 2004, the County Government's Chief Administrative Officer informed the City that the County intended to amend the formula as provided under the MOU; however, it appears this amendment never took effect.

- **Takoma Park Library Services.** County Code Section 2-53 requires the County to make a Takoma Park Library Annual Payment at the beginning of each fiscal year. The Code requires that the payment amount equal the yield that would be realized if the portion of the general County ad valorem property tax rates required to raise to the Department of Library's appropriation were levied against the City's tax base. The payment cannot exceed the amount the municipality raises for library purposes through its own tax revenues.

[15] The City perceived the County had changed the formula unilaterally. OMB believed it had changed the formula to correct an error that calculated salary costs based on an assumption of all PO III positions instead of a blend of PO I, II and II positions which the County would have used.

To calculate the budgeted payment, OMB:

- Determines the property tax share of General Fund revenues;
- Subtracts library revenues from the library appropriation to determine the net costs;
- Multiplies the two results to determine the net library costs attributable to property tax revenues;
- Divides the net library costs attributable to property tax revenues by the yield of one penny on the County's tax base to determine the portion of the property tax rate that funds the net library costs; and
- Applies this rate to the City's assessable tax base to determine the rebate amount.[16]

This calculation determines the tax paid by City residents for County library services and returns it to the City which also levies a city property tax to fund the Takoma Park library.

IGS vs. County Methodologies. A comparison of the IGS costs of services methodology with the County's Municipal Tax Duplication formulas shows the approaches are more different than alike. Among their similarities: they both address direct program expenditures; they both include pension contributions and health insurance benefits in the calculation of total expenditures; and they both net out intergovernmental aid and earmarked, i.e. program specific, revenues.

The differences are:

- **The data sources**: IGS uses published uniform financial report revenue and service category budget data while the data sources for the County's formulas are internal revenue and budget expense reports generated by the County's internal accounting software;
- **The approach to determine total program costs**: IGS' methodology starts with an expenditure amount for an entire service category whereas the County formulas use numerous discrete amounts to generate a unit cost factor that it combines to establish total program costs;
- **Whether the methodology addresses discrete activity costs**: The County's current list of reimbursable activities requires some County formulas to be applied to more discrete activities, e.g. .crossing guards or elderly shopping; the IGS research OLO reviewed did not address a methodology to develop costs for this level of programming.
- **Whether the methodology addresses debt service**: The County's road maintenance formula as well as the 2012 Task Force's proposed park maintenance formula both address capital costs whereas the IGS methodology does not; and
- **The inclusion of indirect costs**, defined as overhead spending on legislative affairs, financial administration, personnel administration and general services: IGS' approach includes these indirect costs while the County does not.

The IGS methodology does not have a calculation that compares to the County's HUR factor since its intent is to determine a property tax differential and property tax rebate, not a full tax-supported rebate amount.

D. The County's Methods for Determining Rebate Amounts

The outcome of a municipal tax duplication program is either a municipal rebate payment or a differential County tax rate that, in effect, generates a property tax credit for municipal taxpayers. Under State law, Montgomery County must provide for either a rebate payment or a tax differential.

[16] When the actual payment is made, Finance uses the assessable base data that becomes effective in the new fiscal year.

The legislative history of Section 30A-3. County law does not establish separate definitions or separate methodologies for costs of service and reimbursement amounts; instead, one section equates the reimbursement amount with the cost of services and the second section limits the reimbursement amount to the Council appropriation. In contrast to State law, which mandates a rebate payment or a tax set-off, County law only provides for a rebate payment.

Section 30A-3, *Determination of amount of reimbursement*, assigns the county executive responsibility for the determination of the reimbursement amount. As described earlier, the law equates the determination of the cost of services to the rebate amount and provides "the amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services."

Often, this section is cited as a key difference between County and State law; it is also cited to justify the County's use of a full-cost formula. However, it was not part of the original legislation; instead, the bill the Executive introduced called for the reimbursement to be "an amount determined the County Executive to approximate the amount of *municipal* tax revenues required to fund the eligible services." (Emphasis added)

The source of the current language was an amendment that Councilmember Christeller proposed to address concerns he had about the disconnect between the proposed legislation and the Executive's original report ("the Gleason report") and the effects of "profligate" municipal actions.[17] To align the legislation with the Executive's proposal, Councilmember Christeller's amendment also proposed allowing the County Executive to authorize a minimum grant. The grant language was dropped from the final legislation because of concerns raised by the County Attorney.[18] Section 30A-4, Limitations on expenditures, limits county expenditures to the funds appropriated by the County Council.

Approved Payments Compared to Formula Results. Table 4-1 displays the MTD rebate formula results and the approved program payments since FY07. Some of the differences between the formulas results and the approved payments reflect repayments or payment caps that result when a rebate amount exceeds the amount of property taxes raised by the municipality.

The data show significant gaps between the formula and the approved payments from FY09 through FY12. The shortfalls range from $1.2 million in FY09 to $14.9 million in FY12. The gaps beginning in FY09, FY10 and FY11 reflect Council funding shortfalls largely due to fiscal challenges at the time. The FY12 gap reflects a spike in the road maintenance reimbursement formula due to substantially higher maintenance expenses from weather events in FY10.

[17] In part, Mr. Christeller's concerns were that the draft bill did not correspond to the specifics of the Executive's memorandum nor to those of the staff paper. He said it provided no protection against profligate action by a municipality; and it did not explicitly limit the grants to municipal services which paralleled County services funded by tax revenues derived partially from the municipal residents.

[18] In a memorandum to the Council President dated August 7, 1973, the County Attorney stated "This office has held that the County may not grant to municipalities or reimburse municipalities in excess of the amount of money which the County would expend if it were, in fact, providing the municipal services….There is no authority which we can find under any of the statutory provisions of the State Code, local laws or the Charter which would allow the County Council to take money from County taxpayers for the subsidization of taxpayers who are residents of municipalities."

Table 4-1: Comparison of Reimbursement Formula and Approved Payments, FY07 to FY13 (000s)

Services	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Roads Maintenance	$4,531	$5,053	$5,871		$6,633	$17,830	$4,697
Takoma Park Police	$2,322	$2,090	$2,116		$2,608	$2,637	$2,515
TP Crossing Guards	$163	$175	$174		$197	$191	$182
Board of Appeals	$.3	$.5	$1.1		$1.2	$1.1	$.6
Hearing Examiner	$.9	$1.0	$1.0		$1.0	$1.4	$.8
Elderly Services	$72	$105	$83		$65	$103	$57
Parks Maintenance	$193	$193	$195		$205	$205	$167
HRC	$115	$133	$145		$157	$167	$87
Animal Control	$111	$129	$119		$128	$129	$68
Results	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
Formula Amount	$7,509	$6,879	$8,705		$9,996	$21,264	$11,582
Actual Payment	$7,459	$7,488	$7,488	$7,488	$6,365	$6,375	$7,777
Difference	($50)	$609	($1,217)	$7,488	($3,631)	($14,889)	($3,805)

Source: OMB. In FY10, the County and municipalities agreed to keep the same payment due to the ongoing work of the 2007 Task Force. As a result, no formula was calculated.

The value of the law equating the results of the cost of services formula to the rebate amount is that it lends objectivity to the determination of the rebate amount. Both MML's reference to early problems with the program's formulas and funding and OLO's review of the legislative files suggest gaps between the formula results and the approved payments are a persistent problem.

For example, in 2006, the County Executive recommended and the County Council approved keeping the FY07 payment for Takoma Park police services the same as FY06 payment, despite the fact that the calculation yielded a payment that was $151,677 below that of the previous year.

According to Council staff, the main causes of the decrease were two offsetting revenue increases: a $60,000 increase in the Takoma Park Police rebate budgeted in a separate Non Departmental Account, and a $72,000 increase in the Maryland State Aid for Police Protection grant. City representatives persuaded the Council that the Executive had made a commitment not to reduce the amount of the payment the previous fall and they had prepared their budget based on that commitment. OLO did not find a consistent set of circumstances to explain this pattern. An unintended consequence of this pattern is that it leads to a public perception of ad hoc decision making.

Takoma Park Rebates. The County budgets for these payments through Non-Departmental Accounts. As Table 4-2 shows, the combined payments totaled $665,290 in FY07 and $1,101,180 in FY13. The library payments in 2011 and 2012 reflect reductions made following the Council's adoption of Expedited Bill 32-10 in May 2010 which authorized a two-year reduction in payments.

Table 4-2: Takoma Park Library and Police Property Tax Rebate Payments, FY07-FY13 (000s)

Rebates	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Libraries	$104	$119	$113	$133	$101	$96	$151
Police	$562	$630	$706	$855	$718	$922	$950
Total	$666	$749	$819	$988	$819	$1,018	$1,101
Annual $ Change	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
Libraries		$15	($6)	$20	($32)	($5)	$55
Police		$68	$76	$149	($137)	$204	$28
Total		$83	$70	$169	($169)	$199	$83

Source: OMB

V. The Context for the County's Municipal Revenue Sharing Program

As explained in Chapter II, Maryland law simultaneously gives counties and municipalities concurrent authority to levy a property tax and home rule authority to decide the discretionary shared services they want. When municipal expenditures parallel County General Fund expenditures for shared services, a County must determine whether a tax set-off is warranted.

Currently, limited data exists to understand County and municipal shared services budgets, e.g. how large they are, how they differ, how much the MTD rebate costs nonmunicipal taxpayers, or how the state mandate for shared income tax revenue affects municipal and nonmunicipal spending levels. Without a more complete understanding of these budgets, informed decisions about how the County should structure its reimbursable service determinations or what the cost basis for a tax set-off should be are difficult to make.

This chapter uses County General Fund expenditure data from the 2011 Uniform Financial Report and corresponding municipal operations fund expenditure data from the 2011 Local Government Finance Handbook to develop revenue profiles and examine County/municipal parallel spending for shared services.

To focus on those shared services that are funded with general county property tax revenue, this chapter uses County and municipal datasets that capture a subset of revenue and expenditure data. The County dataset excludes County enterprise funds, County special area districts and the debt service fund. The municipal dataset excludes capital funds and enterprise funds, plus certain municipal operation fund expenditures, e.g., for recreation and park services, since County expenditures for these services are not from the general county property tax district. This chapter has four parts:

- **Part A** compares County and municipal revenue sources;
- **Part B** examines County and municipal expenditure data;
- **Part C** provides an analysis of expenditure data for shared services and reimbursable services; and;
- **Part D** provides estimates of the cross-subsidy effects of the state mandates for the MTD rebate and the shared county income tax revenue.

A. County and Municipal Revenue Profiles

IGS advises that "calculating the severity of county compensation for double taxation requires an examination of the fiscal relationships between counties and municipalities, particularly the various sources of local government revenue that fund parallel services." Table 5-1 (on the next page) compares County General Fund and Municipal Operation Fund revenue sources. The data for municipal revenue is cumulative for all the municipalities in Montgomery County. For 2011, this comparison shows:

- Local property, income, and other taxes account for 95% of County General Fund revenue, compared with 66% of municipal revenue.
- Municipal operation funds obtain a greater proportion of revenue from Fees/Other (26% compared to 3%) and Intergovernmental (9% compared to 2%) than the County General Fund;
- Local county income taxes, which account for 18% of municipal revenue, reflect the state mandated distribution of county income taxes shared with municipalities.

The phrase 'own source revenue' refers to those revenues that an entity raises from its own resources. It is an indicator of fiscal self-reliance. The County General Fund's share of own source revenue (at 98%) exceeds that of the Municipal Operation Fund (at 73%). Intergovernmental revenues (at 2%) are the only other-source revenue in the County General Fund. For municipalities, other-source revenues include (County) Local Income Taxes (18%) and Intergovernmental revenues (9%). Together these sources account for 27% of all revenue, leaving the share of municipal own-source revenues at 73%.

Table 5-1: Comparison of County and Municipal General Fund Revenue Sources, 2011

Revenue Source	County General Fund		Municipal Operation Funds	
	$'s	**% of Total**	**$'s**	**% of Total**
Local Property Taxes	$1,061,582,080	40%	$76,919,272	46%
Local Income Taxes (a)	$1,039,234,850	39%	$30,742,526	18%
Local Other Taxes (b)	$433,539,397	16%	$2,184,472	1%
Subtotal Local Tax Revenue		**95%**		**66%**
Licenses and Permits	$10,372,598	0%	$8,195,841	5%
Service Charges	$27,839,697	1%	$11,491,616	7%
Fines and Forfeitures	$18,125,944	1%	$10,370505	6%
Miscellaneous	$16,829,984	1%	$9,311,505	6%
Debt Proceeds	$97,525	0%	$3,268,254	2%
Subtotal Fees/Other Revenue		**3%**		**26%**
Federal Government	$23,370,070	1%	$681,335	0%
State Government (c)	$26,190,990	1%	$2,765,300	2%
County Government	--	--	$8,960,392	5%
Other Government	$2,084,188	0%	$2,155,006	1%
Subtotal Intergovernmental Revenue		**2%**		**9%**
Total	**$2,659,267,323**	**100%**	**$167,046,024**	**100%**
% Own Source	98%		73%	

(a) Local Income Taxes in the Municipal Operations Fund reflect distributed County Income Taxes as mandated by the state's shared revenue structure; (b) Local Other Taxes in the County General Fund reflect the energy tax ($233 million) and other local taxes; in the Municipal Operations Fund, the amount reflects the distribution of state admission and amusement and state hotel/motel taxes to municipalities; (c) State revenue in the Municipal Operations Fund reflect state shared revenue grants for municipal urban services such as state highway user revenues.

B. Overview of County/Municipal Local Government Service Expenditures

IGS advises that it is useful to understand municipal tax duplication programs within the broader context of county/municipal expenditure patterns. As explained in Chapter II, the state grants counties and municipalities concurrent authority to levy property taxes but assigns each political subdivision different service responsibilities. County governments must fund numerous state mandated services, e.g. K-12 education, health and social services, along with other discretionary shared services; municipalities fund discretionary shared services only; they have no state funding mandates. The state mandates for county-only services necessarily limit county dollars that are available for shared services.

Table 5-2 shows the 2011 County General Fund expenditure data for county-only and shared services plus corresponding Municipal Operation Fund data. The service categories listed under county only services are from the County's Uniform Financial Report. The shared service categories are from the Local Government Finances Handbook published by the State Department of Legislative Services. (See Appendix A.)

The municipal data aggregates expenditures for all of the County's municipalities. The data excludes expenditures from County and municipal enterprise funds; it also excludes municipal operation fund expenditures for services provided at the County level through enterprise and/or special district funds (i.e, sewer/solid waste, parks and recreation, and debt service).[1]

For 2011, the data show:

- County-only and shared services spending for the County and all municipalities together totaled $2.5 billion, including $1.8 billion (72%) for county-only and $691 million (28%) for shared services.
- County spending on shared services was $586 million or 25% of all General Fund spending.

Table 5-2: County General Fund and Select Municipal Expenditures by Service Responsibility, 2011

Service Categories	County Expenditures	Municipal Expenditures	Total Expenditures
County Only Services			
Corrections	$62,882,893	--	$62,882,893
Health	$77,826,449	--	$77,826,449
Social Services	$77,826,448	--	$77,826,448
Office of Aging	$13,655,085	--	$13,655,085
Other Social Services	$98,940	--	$98,940
Libraries	$28,292,193	--	$28,292,193
Natural Resources	$642,176	--	$642,176
Tax Rebate	$28,012	--	$28,012
Board of Education	$1,422,564,665	--	$1,422,564,665
Community College	$102,509,792	--	$102,509,792
Other Intergovernmental	$14,879,315	--	$14,879,315
Subtotal County-Only	**$1,801,205,968**	**--**	**$1,801,205,968**
Shared Services			
General Government	$202,175,358	$41,679,124	$243,854,482
Police	$202,113,605	$24,519,313	$226,632,918
Other Public Safety	$26,599,683	$7,358,039	$33,957,722
Transportation	$51,388,398	$16,602,918	$67,991,316
Community Development/Public Housing	$3,839,074	$5,802,987	$9,642,061
Economic Development	$5,561,635	$499,726	$6,061,361
Miscellaneous	$94,024,314	$9,028,487	$103,052,801
Subtotal Shared	**$585,702,067**	**$105,490,594**	**$691,192,661**
Total	**$2,386,908,035**	**$105,490,594**	**$2,492,398,629**

Source: Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook

[1] Municipal expenditures for sewer/solid waste, parks and recreation, and debt services totaled $40.9 million in 2011 including $27.9 million for parks and recreation; $7.6 million for debt service and $5.4 million for debt service.

C. Estimates of Shared Services Spending and Spending for Reimbursable Services

As noted in Chapter II, municipal tax duplication programs do not necessarily provide reimbursement for all shared services; this study uses the term "reimbursable services" to refer to that subset of shared services that a County designates as eligible for a tax set-off through its municipal tax duplication program. By definition, "non-reimbursable services" are those shared services that are not eligible for reimbursement. They may also be characterized as sole provider services since each entity separately decides the services it provides to its constituents.

Table 5-3 uses data from Table 5-2 and MTD unit cost data to estimate County and municipal shared service expenditures. This analysis provides insight into the level of coordinated service delivery, since reimbursable services are those the county and municipalities provide jointly (i.e., a municipality provides the service within its boundaries, while the County provides the service outside of the municipal boundaries). In contrast, non-reimbursable services are those that the County provides countywide (including within municipalities) even if a municipality also provides that service for its residents.

The analysis shows larger shares of spending for sole provider services compared to shared provider services. County spending for shared reimbursable services accounted for $198 million or 34% of its shared services. Of the $105 million in municipal shared services spending, $11.3 million (11%) represents service costs reimbursed by the County, compared to $94 million (89%) for sole provider services.

This analysis also shows County support for reimbursable shared services totaled $210 million. So, for each County General Fund dollar, 75 cents supports county-only services, 16 cents supports shared services the County uniquely provides countywide and 9 cents supports shared services the County provides with municipalities.

Table 5-3: Shared Services Estimates for Reimbursable and Non-Reimbursable Services

Shared Service Category	County General Fund Expenditures (a)	Municipal Reimbursements (b)	Total Expenditures and Reimbursements
Shared Services (Reimbursable)			
General Government			
Board of Appeals	$596,995	$1,111	$598,106
Hearing Examiner	$491,723	$1,383	$493,106
Human Rights	$2,107,950	$167,004	$2,274,954
Senior Groceries (c)	$556,754	$2,664	$559,418
Senior Transportation (c)	$655,391	$99,875	$755,266
Subtotal	$4,408,813	$272,037	$4,680,850
Police			
Animal Control	$944,201	$129,069	$1,073,270
Crossing Guards	$4,230,452	$191,207	$4,421,659
Police (d)	$147,947,717	$2,636,814	$150,584,531
Subtotal	$153,122,370	$2,957,090	$156,079,460
Transportation			
Road Maintenance (e)	$40,866,465	$8,148,500	$49,014,965
Subtotal	**$198,397,648**	**$11,327,627**	**$209,775,275**

Table 5-3: Shared Services Estimates for Reimbursable and Non-Reimbursable Services (cont.)

Shared Service Category	County General Fund Expenditures	Municipal Expenditures	Total Expenditures
Non-Reimbursable Services (Sole Provider)			
General Government	$197,766,545	$41,407,087	$239,173,632
Police (f)	$48,991,235	$21,562,223	$70,553,458
Other Public Safety	$26,599,683	$7,358,039	$33,957,722
Transportation	$10,521,933	$8,454,418	$18,976,351
Community Devel./Public Housing	$3,839,074	$5,802,987	$9,642,061
Economic Development	$5,561,635	$499,726	$6,061,361
Miscellaneous	$94,024,314	$9,028,487	$103,052,801
Subtotal	**$387,304,419**	**$94,112,967**	**$481,417,386**
Total Shared Services	**$585,702,067**	**$105,490,594**	**$691,192,661**
% Reimbursable Services	**34%**	**11%**	**30%**
% Non-Reimbursable Services	**66%**	**89%**	**70%**

Sources: OLO, OMB and Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook. (a) Except as noted, these expenditures are calculated using per capita costs for the County service area; (b) These estimates reflect FY11 County actual net service costs; (c) These services are assigned to General Government to simplify the display; (d) These amounts account for expenditures in Organizational Support, Patrol Services and Investigative Services; (e) The basis for the County amount is a per capita municipal rebate payment multiplied by the County service area; (f).The County General Fund amount accounts for expenditures in the Office of the Chief, Management Services, the Security of County Facilities, the Animal Shelter and Grants.

Per Capita Spending for Non-Reimbursable Services. Table 5-4 displays data for the Non-Reimbursable Services from Table 5-3 on a per capita basis. (Costs for reimbursable services are uniform because the MTD formulas use County cost data to calculate reimbursement amounts.) The data show that, on average, municipalities spent approximately $180 more per capita on non-reimbursable shared services in 2011 than the County did. Since municipal residents receive a combined benefit from both County and municipal spending on non-reimbursable services, this effectively increases a municipal resident's per capita spending and widens the per capita spending gap.

Table 5-4: 2011 Per Capita Spending for Non-Reimbursable Services

	County	Municipal	Combined Benefit
Non-Reimbursable Services			
General Government	$203	$255	$458
Police	$50	$133	$183
Other Public Safety	$27	$45	$72
Transportation	$11	$52	$63
Community Dev and Public Housing	$4	$36	$40
Economic Development	$6	$3	$9
Miscellaneous	$96	$56	$152
Total Non-Reimbursable Services	**$397**	**$580**	**$977**

Source: OLO and Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook

D. An Assessment of Cross Subsidies in the Shared Services Budget

Last year, after the release of the Municipal Revenue Sharing Task Force report, the Government Operations (GO) Committee raised several questions about the County's program. The GO Committee particularly wanted to better understand any potential subsidy effects created by the MTD program.

This section focuses on the potential subsidy effects of the municipal property tax rebate and the share of county income tax revenues distributed to municipalities. Specifically, it analyzes cost data to review the relationship between the cost to non-municipal taxpayers and the benefit to municipal taxpayers.

1. Per Capita Effects of the Municipal Tax Duplication Payment

In FY13, the County's approved municipal tax duplication payment was $7,776,720. OLO used IGS' methodology to compare the per capita cost of this payment (i.e., the per capita cost to non-municipal taxpayers) and the per capita rebate received by municipalities (i.e., the per capita benefit to municipal taxpayers).

The results of OLO's calculations, displayed in Table 5-5, show:

- The per capita cost to the nonmunicipal taxpayer is about 20% of the per capita benefit to the municipal taxpayer. This reflects the fact that an MTD payment is re-distributing costs from a smaller municipal population and municipal tax base to a larger nonmunicipal population and tax base.

- The combined effect of the municipal credit and the nonmunicipal cost creates a differential benefit of $57.52 per person.

Table 5-5: Per Capita Differential of the FY13 MTD Approved Payment

Municipal Tax Duplication Credit	FY13 Approved Payment (Full Cost Rebate)
Total Value	$7,776,720
Per capita cost to County (nonmunicipal tax base)	($9.56)
Per capita rebate to municipalities (municipal tax base)	$47.96
Difference between County per capita cost and municipal per capita rebate	$57.52

Source: OLO

2. Comparison of Municipal Income Tax Revenues and MTD Payments for Shared Services

OLO's review of MTD program documents found both legislative and research studies that raised concerns about the effects of the state shared revenue structure and its relationship to the establishment or design of an MTD program. For example, in 1970, the Maryland Legislative Council Committee on Taxation and Fiscal Matters reached two conclusions about this issue, excerpted below.

> The Committee further finds that the existing allocation of State-shared taxes among counties and municipal corporations and the existing requirements from the counties to make certain revenues available to municipal corporations have created instances where municipal corporations are receiving a disproportionate share of revenues for the type of services provided. Consequently, while some municipal residents are being subject to double taxation, some municipal residents are receiving double benefit from the allocation of non-property tax revenues. In such instances, the residents outside of municipal corporations are paying a higher property tax rate than they should be paying.[2]

> The Committee does not believe that a state mandated property tax differential for municipal residents is warranted at this time. It believes that while State action could correct some inequities it might also tend to promote the uneconomical or ineffective providing of services by small units of government and limit the flexibility of transferring or merging governmental services at the local level.[3]

IGS' policy research reports also discuss the combined influences of municipal home rule, the state shared revenue structure and MTD programs. As IGS states:

> [T]he amount of state-shared revenue generated by Maryland's tax structure and allocated to counties and municipalities has a substantial impact upon the justification for, and the size of, tax differentials. If a municipality provides very few services, it is possible that the state-shared revenues received by the municipality to help it fund these services will exceed the equivalent amount of county property tax levied against municipal residents to fund a parallel county service. In this case, no tax differential would be awarded.[4]

IGS also advises "It is possible that no tax differential could be awarded to small municipalities that provide very few services. In order to justify a tax differential from the county, a municipality must provide a sufficient number of services to offset the state shared revenue that it receives."[5]

To examine the effects of the state shared revenue structures and the MTD program in Montgomery County as it is currently administered using a full cost basis for reimbursement, this section compares each municipality's <u>total</u> reimbursable shared service costs to the revenue each municipality receives from re-directed county income taxes.[6] This analysis looks at reimbursable service costs because these services are those delivered through the shared provider system; and thus their costs are the source of the tax duplication.

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[2] County Property Tax Rate Differential for Municipal Residents, p. 330.
[3] Ibid.
[4] Shandy and Wilson, p. 10.
[5] Shandy and Wilson, p. 2.
[6] Note that this analysis does not align with the approach IGS suggests. An analysis that followed the IGS approach would use costs that were adjusted to reflect only the property tax share instead of the total costs shown in column A of Table 5-6.

This analysis excludes both County and municipal non-reimbursable services. County non-reimbursable services are excluded because they are provided countywide and their costs are distributed equally among all county taxpayers; all county taxpayers can access, use and benefit from these services. It excludes municipalities' non-reimbursable services because these services are only available to municipal residents and they are appropriately funded entirely by municipal property taxes.

Where the income tax revenue exceeds the reimbursable shared service costs, an MTD rebate payment can be viewed as over-correcting for the inequity that the MTD payment is trying to fix (and thus creating a subsidy from non-municipal to municipal taxpayers). In those cases where the re-directed income tax revenue falls short of the reimbursable shared service costs, the effects of property tax duplication are greater than the benefits of that municipality's state-mandated income tax credit.

Table 5-6 (on the next page) compares each municipality's FY13 reimbursable shared service costs, distributed county income tax revenue, and approved MTD approved payments. These data show:

- In the aggregate, the FY13 distributed county income tax revenue for municipalities of $31 million exceeds by $19 million the municipalities' total reimbursable shared services costs of $11.6 million.

- Distributed county income tax revenue entirely offsets the reimbursable shared service costs for 20 of 22 municipalities in FY13. Takoma Park ($1.4 million less) and Washington Grove ($15,000 less) are the only two municipalities where the distributed county income tax revenue was less.

- For municipalities where the distributed county income tax revenue exceeds the total reimbursable shared service costs, the amount ranges from approximately $30,000 for Glen Echo to $6.5 million for Gaithersburg and $7 million for Rockville.

- When the approved FY13 MTD payments are added to the shared county income tax revenue, the total payments to municipalities are projected to exceed reimbursable shared service costs by $27 million.

3. Adjustments to this analysis for currently unrecognized reimbursable services

Using the IGS methodology, OLO's earlier review identified issues with the County's current list of reimbursable services, including whether the current list should be revised to:

- Exclude park maintenance services since they are not paid for out of the General Fund;
- Include zoning and hearing examiner services in seven municipalities that exercise their own planning and zoning powers; and
- Include police patrol services in Chevy Chase Village, Gaithersburg and Rockville.

Changes to park maintenance and zoning/hearing examiner service reimbursements would have a marginal to small impact on municipalities' costs of service; however, adding reimbursements for police services would have a more substantial impact. For example, reimbursements for police patrol services could increase the total reimbursable shared service costs for Chevy Chase Village (by $32,678), Gaithersburg (by $2.6 million) and Rockville (by $4.7 million). Even with these cost increases, each municipality's distributed county income tax revenues would still exceed its new reimbursable service cost total.

Table 5-6: Comparison of Municipal Reimbursable Shared Service Costs, County Income Tax Revenue and MTD Payments

Municipality	A Reimbursable Shared Service Costs (100%)	B Distributed County Income Tax Revenue	C Difference (B-A)	D FY13 MTD Payment	E Effect of MTD Payment (C+D)
Barnesville	--	$46,781	**$46,781**	--	**$46,781**
Brookeville	$14,837	$111,675	**$96,838**	$ 6,794	**$103,632**
Chevy Chase Town	$233,167	$2,174,114	**$1,940,947**	$130,297	**$2,071,244**
Chevy Chase View	$75,743	$325,909	**$250,166**	$41,275	**$291,441**
Chevy Chase Village	$180,893	$1,414,503	**$1,233,610**	$100,524	**$1,334,134**
Chevy Chase Village, Sec 5	$35,644	$352,674	**$317,030**	--	
Chevy Chase Village, Sec 3	$53,735	$325,420	**$271,685**	$30,796	**$302,481**
Drummond	$8,465	$52,798	**$44,333**	$ 4,613	**$48,946**
Friendship Heights	$100,478	$943,010	**$842,532**	$82,625	**$925,157**
Gaithersburg	$2,085,440	$8,601,966	**$6,516,526**	$1,168,467	**$7,684,993**
Garrett Park	$88,954	$242,280	**$153,326**	$47,593	**$200,919**
Glen Echo	$38,094	$67,925	**$29,831**	$20,762	**$50,593**
Kensington	$229,256	$464,332	**$235,076**	$137,523	**$372,599**
Laytonsville	$23,837	$137,728	**$113,891**	$12,991	**$126,882**
Martin's Additions	$49,233	$353,851	**$304,618**	$26,832	**$331,450**
North Chevy Chase	$43,886	$145,633	**$101,747**	$23,918	**$125,665**
Oakmont	$6,015	$45,236	**$39,221**	$3,278	**$42,499**
Poolesville	$386,513	$1,014,387	**$627,874**	$210,634	**$838,508**
Rockville	$4,065,121	$11,048,348	**$6,983,227**	$2,116,671	**$9,099,898**
Somerset	$97,151	$476,071	**$475,974**	$52,560	**$528,534**
Takoma Park	$3,683,611	$2,330,225	**($1,353,386)**	$3,513,643	**$2,160,257**
Washington Grove	$82,426	$67,660	**($14,766)**	$44,922	**$30,156**
Total	**$11,582,499**	**$30,742,526**	**$19,160,027**	**$7,776,718**	**$26,936,745**

Source: OLO and DLS Local Government Finances Handbook, 2011

VI. Municipal Stakeholder Observations

The Council asked OLO to solicit feedback about the County's Municipal Revenue Sharing Program from municipal representatives (elected officials and staff). To do this, OLO convened one focus group session with representatives from multiple municipalities and also conducted group interviews with representatives from individual municipalities. OLO asked participants to weigh in with specific concerns about the administration of the Municipal Revenue Sharing program and the current law. OLO also asked participants to suggest specific ideas for improvement.

OLO received extensive feedback about issues with the administration of the Municipal Revenue Sharing Program and limited feedback about the current law. The participants' suggestions for improvement generally focused on program administration issues. This chapter summarizes the feedback and suggestions for improvement that OLO heard from municipal representatives.

A. General Perceptions and Agreements

OLO's focus group and interviews elicited four general perceptions and/or areas of agreement that were widely shared among participants:

- **The Municipal Revenue program is well-intentioned; however, in its current form, the program does not adequately address persistent tax differential issues between municipal governments and Montgomery County.** Despite their concerns, representatives emphasized that they have good working relationships with several County departments and appreciate the opportunity to partner with the County.

- **The County emphasizes overall cost savings over an accurate reflection of municipal needs and this emphasis has increased since the financial crisis**. For example, one representative discussed this concern in the context of the County's park tax and corresponding municipal reimbursement payments, stating that the County altered the reimbursement formula in order to lower their own costs and therefore reduce the municipal reimbursement.

- **It is a concern that the annual reimbursement process has an "inherently political element."** Municipal representatives took issue with the County's characterization of the reimbursements as discretionary or "grant" payments. Representatives believe strongly that reimbursement payments should be protected more than they currently are, and that municipalities should not have to "plead their case" for reimbursements to the County Executive on a yearly basis. As one representative noted, these funds are often used to cover expenses for vital services, such as senior transportation services, and do not always reimburse the full differential amount.

- **Municipal representatives are hopeful that the concerns they raised during the Task Force process will be addressed; however, if it looks like this is not feasible, they suggest they would be agreeable to reverting to the provisions of the 1996 Task Force Report and 1996 Council Resolution along with the current Task Force's recommendations for parks.**

B. Specific Concerns

OLO heard extensive concerns about reimbursable services, reimbursement formulas and rebate payments. When asked to suggest specific concerns and offer ideas to improve the design and administration of the

County's program, participants identified issues related to reimbursement payments, reimbursement formulas, services and service level determination, and general process and timing.

The County's reimbursement payments. Participants expressed dissatisfaction with many aspects of the repayment process, ranging from details of how particular formulas are calculated to concerns about how rebate information is disseminated. OLO heard the following themes:

- Reimbursement payments to municipalities often do not meet corresponding municipal expenses. Participants expressed concern about the gaps that exist between the County's rebate payments and their expenses. Representatives identified outdated reimbursement formulas and a shift of administrative responsibilities from the County to municipalities, often without commensurate increases in funding, as some of the factors responsible for this discrepancy.

  To respond to the concern about the shortfall in County's reimbursement payments, one representative proposed creating a municipal service tax that would be levied against non-municipal residents to help budget for hypothetical shortfalls going forward.

- One representative also noted the lack of alignment between County reimbursement payments for bridge and infrastructure maintenance versus the expenses municipalities face that vary from year to year. It was suggested that the County not restrict its reimbursement payments to "recurring costs" on an annual basis. The representatives also emphasized that items such as bridge or infrastructure expenditures should not have to be handled "on a case-by-case basis."

The County's reimbursement formulas. Overall, participants noted that the lack of a "predictable, reliable" formula for determining reimbursements has made it more difficult for municipalities to anticipate yearly expenses. Specific themes and/or views include:

- Some participants observed that the County's cost formulas are not realistic. As an example, most participants agreed that the County should not be excluding specific overhead costs merely because it is expedient for them to do so, or "just because it suits them."

- Another shared perception among participants was that no consistent methodology exists for revising the county's reimbursement formulas. Participants observed that the County's reimbursement formulas are recalculated infrequently, and they shared a perception that there are no consistent practices to revise the formulas. With no consistent set of criteria for doing so, participants noted that the results the formulas generate may not accurately reflect what municipalities are owed.

  As a result, some municipalities have attempted to initiate changes to the formulas themselves. For example, one representative commented that they took the initiative to reconfigure their municipality's police services reimbursement formula; however, after submitting the proposed changes to the County Attorney's office for review, no further action has been taken on the issue.

- Another view expressed by a participant was that the County should assume more realistic cost estimates for financing initiatives. One example offered to illustrate this was the suggestion that plans to finance an expenditure using debt service should incorporate interest payments.

Participants offered the following suggestions to address their concerns with the County's reimbursement formulas:

- One representative suggested that the County could more regularly identify the elements of each formula, as well as how often or how recently they are updated. The thinking was that this might help municipalities identify which elements are "still in sync with reality."
- Another representative suggested that the County should specifically identify which formulas apply to which expense categories.
- One representative suggested that the County should certify any components that go into reimbursement formulas.

Services and Service Level Determinations. During the focus group meeting, several representatives agreed that expenses for levels of service that go above or beyond equivalent county services should be paid by the municipalities that provide them, as long as they are "clear cut" uses such as road maintenance. Nonetheless, participants expressed concerns about a lack of standards and specific services, including police and code enforcement.

- One participant observed that a lack of established standards exist to determine *which residents* should be paying for *what services*, as well as which expenses are covered by the aforementioned formulas.
- Some representatives expressed interest in looking into potential police service duplication in the municipalities, and claimed that a substantial number of municipal police officers are patrolling streets in Gaithersburg, Rockville and other areas. At the same time, municipal police departments are being stretched thin by demands from within their own jurisdictions. More importantly, some representatives claimed that municipal governments should receive an additional $500,000 per year in reimbursement payments for police services. However, as of yet, no "meaningful discussions" are going on to address these matters.
- Similarly, representatives also noted that counties and municipalities *both* administer some code enforcement and in some cases a muncipality's required annual inspections for facilities are more stringent than the county's regulations.

Participants offered the following ideas to address their concerns about services:

- One representative suggested that a new section of the County Code be created to cover tax duplication issues that are not clear-cut.
- Another representative suggested that if the County offers a service county-wide, then municipalities should get a corresponding break on any similar services that they offer.

Concerns about timing and process. Views expressed by municipal representatives on timing and process include:

- The process of how reimbursement payments are determined in the County Executive's annual budget is opaque. Representatives have historically received little input and/or context about how their respective municipalities' reimbursement payments are calculated prior to their release in the overall budget, with little advance notice on what these amounts will be. Representatives also noted that no standardized time frame exists for reimbursement payments, either.

- No existing mechanism exists for correcting identified errors in cost calculations after they have been released. One representative noted that errors had previously been found in road maintenance cost calculations after they had already been publicly released. Moreover, this representative expressed concern over how payments are split between service categories for respective municipalities since misrepresentations of how much money is truly required for each component could have the effect of shortchanging other locations.

Participants offered two ideas to address these timing and process concerns:

- One idea suggested by representatives is to establish an "audit process" that would allow municipalities the opportunity to request examination of a county program or service's particulars, as well as how its corresponding formula is calculated.

- Another suggestion was that the County could release relevant information to municipalities 30 days in advance of its budget release (e.g., Feb 1st "would be ideal"); that interval would give municipalities the chance to locate and correct any potential errors.

C. Other Issues

Throughout the conversations and focus group session, participants identified other concerns not directly related to the County's tax duplication program. These concerns included the following:

- **Concerns about County practices of offloading program and other operating expenses, e.g. administration, maintenance on to municipalities, with inadequate funding increases to cover the difference.** Some representatives commented on the County practice of reducing its funding for certain services in a way that passed expenses onto municipalities. One example was fallout from the recession in 2010; another example dated from the late nineties when the County decreased recreation services funding and shifted responsibilities for administering them onto local officials, with facility maintenance and some other responsibilities being handled by the County's Department of Recreation. While the County claimed that it would reimburse the municipality for programming expenses, the representative noted that their reimbursements are increasingly not sufficient to cover their associated expenses.

- **Concerns about the Impact of the County's Energy Tax.** Several representatives asserted that their respective municipalities were not receiving the full amounts of Energy Tax reimbursements.

- **Concerns about Municipalities' Limited Revenue Options.** One representative highlighted a more general issue, stating that municipalities have comparatively fewer options for raising revenues, making it harder for them to cover budget shortfalls.

VII. Municipal Tax Duplication Programs in Other Counties

The Council asked OLO to investigate programs in other jurisdictions to identify strategies that could improve Montgomery County's program. This chapter describes the structure of municipal tax duplication programs in Anne Arundel, Frederick, and Prince Georges' counties. Similar to Montgomery County, these counties must provide a tax differential or rebate to municipalities. Additionally, they are the three most populous counties with municipalities in Maryland after Montgomery County.

A. Anne Arundel County

Anne Arundel County's two municipalities, Annapolis and Highland Beach, have 38,490 residents that account for 7% of the County's population. Annapolis is the state's sixth most populous city. The County's tax duplication program provides a tax differential for only Annapolis since Highland Beach does not provide any shared services. In FY11, Annapolis had the state's highest municipal per capita tax rebate ($674).

Background. The MML Tax Set off Handbook reports Annapolis residents' have received a form of a tax differential since the 1930s when they were exempt from paying any county taxes that paid for county roads or public safety. The tax differential was abolished in FY70 and reinstated in FY72.

Method for determining services eligible for reimbursement. Section 6-307 of the Tax-Property Article, *Services by a municipal corporation in certain counties*, prohibits Anne Arundel County from taxing city residents for services the County provides.[1] This effectively resolves the issue of double taxation for shared services by creating two service areas with exclusive authority for service delivery and clearly delineated funding responsibilities, i.e., the City of Annapolis and the area outside of the City.

Reimbursement formula. The County's FY13 Approved Budget defines the term tax differential as follows:

> The difference between the county tax rate paid outside the City of Annapolis and the rate paid in Annapolis. The reason for the differential is that the City of Annapolis provides its own police, fire, recreation, planning and public works services.[2]

The County's process to determine the City's tax differential consists of the following steps:

- **Step 1** allocates all County spending into countywide and non-city categories.[3]
- **Step 2** assigns all revenues, e.g., taxes, grants and other revenues, except for property taxes, to offset the costs of either countywide or non-city services.

[1] The law states "The governing body of Anne Arundel County or Howard County may not impose a county property tax on property of a resident of a municipal corporation for any service that the municipal corporation provides for the resident."
[2] Anne Arundel County Approved Budget, FY2013, p. 323.
[3] Countywide categories are the same as IGS' "county-only services," (i.e. spending for the Board of Education, Community College, judicial services and detention facilities, health, and human services functions). Non-city categories are the shared services that the County does not provide within the City of Annapolis.

- **Step 3** establishes property tax rates sufficient to offset the remaining net costs from Step 2. A countywide property tax rate, using the countywide tax base, is set to cover the remaining countywide service costs. A nonmunicipal property tax rate, using only the nonmuncipal tax base, is set to cover the remaining non-city service costs. The nonmunicipal tax rate serves as the Annapolis tax rate differential.

Results. Table 7-1 displays a table from the FY2013 Approved Budget for Anne Arundel County to show the results of the tax differential on a municipal homeowner's county taxes. The tax rates and yield shown below only reflect County property taxes; they do not include City of Annapolis property taxes used to fund the shared services within the City.

Table 7-1: Effect of Anne Arundel Tax Differential for the City of Annapolis

Item	Outside Annapolis	Within Annapolis	Tax Differential
FY12 Property Tax Yield Per Penny	$5,908,000	$558,500	
FY12 County Tax Rates			
Real Property Tax Rate	0.910	0.543	0.367
Personal Property Tax Rate	2.275	1.357	0.918
FY12 Average County Property Tax Bill for Homeowner Occupied Property	$2,326	$1,489	

Source: Anne Arundel County Approved Budget FY2013, p. 55.

Other Observations. Anne Arundel's legislative structure eliminates the issue of concurrent authority that creates many of the parallel services and double taxation issues a MTD program must address. Similar to Montgomery County's special area tax districts, creating exclusive authority for City services results in a more straightforward process for the County to determine the City's tax differential.

Since the County disaggregates its own expenditures into countywide and non-city services, it skips the question of how to determine whether shared services exist and whether these shared services are substitutes or supplements. This approach also works because the City of Annapolis functions as a full service city that has sole responsibility for deciding, funding and providing all shared services within its boundaries.

B. Frederick County

Frederick County's 12 municipalities have 93,897 residents that account for 40% of the County's population. The City of Frederick is the state's most populous city with 65,239 residents. The County's tax duplication program provides a tax differential and a tax rebate that reimburses its 12 municipalities for four services: roads, police, parks, and planning and zoning.

Background. Frederick County's tax rebate program dates to July 1981 when County and municipal officials established a study committee to determine what county and municipal services were duplicative and if inequities existed. The County's reimbursement formulas and the number of service areas that it reimburses for have been in place since then.

Frederick County's program is not codified in law or regulation. Staff responsible for administering the program rely on in-house spreadsheets and institutionalized department procedures.

In 2011, the County and municipalities formed a Tax Equity Work Group and charged it with conducting research about tax equity programs and reviewing the current program. A result of the 2011 Tax Equity Work Group is that Frederick County offers each of its 12 municipalities the option of choosing a tax differential or a tax rebate.

Determining duplicative services eligible for reimbursement. The 1981 study that initiated Frederick County's program defined areas of service duplication as:

> Those service areas of the Frederick County Government funded in whole or in part by general fund revenues which are not provided or extended to all municipal residents and the same or similar type services are provided to municipal residents by two or more municipal governments which fund said services in whole or in part with municipal property tax revenues.[4]

The Study Committee developed an inventory of county and municipal services based on an analysis of published financial reports and performed a detailed expenditure analysis that categorized both county and municipal government expenditures by function and activity. Service duplication existed if two or more municipal governments incurred expenditures for the same or similar type of activity.

This review identified four service areas for reimbursement: 1) Highway/Street Maintenance; 2) Police Services; 3) Bulk Waste Collection; and 4) Parks and Recreation Services. Since this exercise was completed, the list was revised to add planning and zoning services and drop bulk waste collection. The reimbursements are for operating expenses only; they do not include capital program costs or debt service**.**

Reimbursement formulas. The 1981 study explains the purpose of the County's reimbursement methodology as follows:

> The purpose of the formulas is to return tax dollars collected by the county from municipal residents for services which are not provided to those residents by the county. At the same time, the tax equalization formulas contain a built-in protection for non-municipal taxpayers through a mechanism called a "CAP". The "CAP" limits the amount of equalization to the estimated municipal contribution in the duplicated service area. Through the use of the equalization formulas and the "CAP", the county attempts to insure that equalization does not exceed the municipal contribution.[5]

Frederick County Budget staff follow a three-step process for each of the four service areas to establish the Net County Expenditure amounts that are distributed to municipalities. (The net expenditures are for direct expenses only; they do not account for overhead costs.)

The expenditure data used in the reimbursement formulas creates a two year lag between a municipality's expenditures and their subsequent reimbursement. For example, county staff used data from the County's FY11 CAFR and expense data submitted by municipalities to determine the FY14 budget for municipal reimbursements.

- **Step 1** calculates a "Net County Expenditure" value by using County expenditure data for each program area and subtracting earmarked revenues (if any) for that program area, e.g., state highway

[4] County-City Tax Equity in Frederick County: 1980-1981, p.2.
[5] County-City Tax Equity in Frederick County: 1980-1981, p.4.

user revenues or police aid. This is divided by the basis of distribution (population, acreage, mileage) to calculate an amount to be distributed per the formula.

- **Step 2** calculates the CAP factor referenced above based on County and municipal wealth data, e.g., net income taxes and assessable base, plus other taxes and grant revenues. First, these county revenues are categorized based on their tax base, e.g., income, assessable base, population and other. Next, the municipal contributions for each of these revenue categories are determined to create a municipal share for each category. These shares are applied to the relevant County totals and added together to determine the total municipal contribution. The CAP factor is then calculated by dividing the total municipal contribution into the County total. This percentage is multiplied by the Net County Expenditure (from Step 1) to determine the amount to be distributed per the CAP formula.

- **Step 3** compares the two results for Net County Expenditure from Step 1 and Step 2 and selects the lower Net County Expenditure result as the Total (or maximum) Amount to be Distributed for tax equity purposes.

The distribution formulas for each of the four service areas are based on unit costs. For example,

- The highway formula divides the Net County Expenditure for Highways by the number of County miles to determine a per mile cost, and reimbursements to municipalities are based on each municipality’s number of highway miles;

- Police and planning reimbursements are calculated on a per capita basis, and

- The parks reimbursement distributes a fixed dollar amount on a per capita basis and the remaining amount on a per acre basis.

The determination of the parks reimbursement is for active public parks only. It does not include recreation programs and staff makes adjustments to subtract expenses associated with other maintenance to isolate public park expenditures.

The determination of the police and planning reimbursement imposes an additional limit that prevents a County reimbursement from exceeding the actual municipal expenditure. Any “excess” reimbursement funds created by this limit are re-distributed among municipalities that still have a shortfall between their expenditures and the County’s reimbursement amount.

Results. The total rebate for each municipality is the sum of the calculations across the four service areas. Table 7-2 displays the FY13 distributions by service area and municipality.

Table 7-2: Frederick County Tax Duplication Payments, FY13

Municipality	Highways	Police	Planning/ Zoning	Parks	Total
Brunswick	$208,569	$470,623	$41,820	$40,262	**$761,274**
Burkittsville	$22,051	--	--	$786	**$22,837**
Emmittsburg	$108,004	$223,027	$19,818	$24,494	**$375,343**
Frederick	$1,527,556	$5,214,028	$463,315	$422,072	**$7,626,971**
Middletown	$167,560	$314,615	$28,151	$51,373	**$561,699**
Mt. Airy	$140,010	$205,392	$3,498	$41,476	**$390,376**
Myersville	$49,491	$99,476	$11,437	$13,798	**$174,202**
New Market	$21,685	$11,950	$582	$20,488	**$54,705**
Rosemont	--	--	--	$2,458	**$2,458**
Thurmont	$222,504	$489,010	$43,453	$41,147	**$796,114**
Walkersville	$192,630	$389,829	$41,157	$61,394	**$685,010**
Woodsboro	$59,894	--	--	$23,025	**$82,919**
Total	**$2,719,954**	**$7,417,950**	**$653,231**	**$742,773**	**$11,533,908**

Source: Frederick County Government

As noted above, as a result of the 2011 Tax Equity Work Group each municipality has the option of choosing a tax differential or a tax rebate. Staff reports that to date, two municipalities, the City of Frederick and Myersville, have opted for the tax differential.

Additional Observations. Staff report that use of the formula was suspended in FY10 when County tax revenues started to decline; and, as a result, distributions were frozen at the 2009 amounts for the next three years, FY10-FY12. When use of the formula was reinstated in FY13, the increase in reimbursement amounts reflected increases in County and municipal expenditures that occurred in those three years and the decrease in highway user revenues. Table 7-3 compares FY13 and FY12 reimbursements.

Table 7-3: Frederick County Change in Tax Duplication Payments, FY12-FY13

Municipality	FY12	FY13	Change	
			$'s	%
Brunswick	$491,888	$761,274	$269,386	55%
Burkittsville	$1,081	$22,837	$21,756	2013%
Emmittsburg	$238,044	$375,343	$137,299	58%
Frederick	$5,016,903	$7,626,971	$2,610,068	52%
Middletown	$296,884	$561,699	$264,815	89%
Mt. Airy	$244,901	$390,376	$145,475	59%
Myersville	$107,807	$174,202	$66,395	62%
New Market	$7,998	$54,705	$46,707	584%
Rosemont	$8,661	$2,458	-$6,203	-72%
Thurmont	$524,239	$796,114	$271,875	52%
Walkersville	$438,520	$685,010	$246,490	56%
Woodsboro	$25,155	$82,919	$57,764	230%
Total	**$7,402,081**	**$11,533,908**	**$4,131,827**	**56%**

Source: OLO and Frederick County Government.

Three unique features of the Frederick County program are:

- The CAP factor which establishes a limit to insure that equalization does not exceed the municipal contribution;
- The practice of calculating a total duplication amount and re-distributing "surplus" funds from municipalities where the payment has reimbursed them up to their actual spending limit to municipalities where a shortfall still exists; and
- The option for municipalities to choose a tax rebate or a tax differential.

C. Prince George's County

Prince George's County's 27 municipalities have 235,813 residents that account for 27% of the County's population. Eight of its municipalities are among the state's most populous and the County tax duplication program provides a tax differential and a tax rebate that reimburses these municipalities for public works, aging services, housing and community development, public safety communications, police patrol and support services, fire services, animal management, library service, and street lighting/traffic control.

Background. According to the MML Tax Set-off Handbook, the Prince George's County Municipal Association (PGCMA) spearheaded an effort in the early 1980's to create the Prince George's County program as it exists today. In 1982, the PGCMA established a subcommittee to develop a double taxation elimination strategy; invited speakers from Annapolis, including an accounting firm and IGS; and contracted with IGS to perform an analysis of several towns. Next, PGCMA began work to develop its own formula. In August, 1983, following passage of a new State law, the subcommittee met with county officials to resolve conflicts over its formula and then introduced legislation. Under the law approved in November 1983, Prince George's County adopted a $6.5M tax differential plan that roughly quadrupled previous rebates of $1.6M annually. The law resulted in lower tax rates on the combined city-county property tax bills and higher municipal tax rates.

Method for Determining Services Eligible for Reimbursement. Prince George's Municipal Tax Differential law (Sec. 10-183 (6)) defines eligible services or programs to mean:

> Those services or programs which are performed by a municipal corporation, and are wholly or partially funded from property tax revenues of the municipal corporation, instead of similar County services or programs when the similar County services or programs are wholly or partially funded from property tax revenues in the County's general fund and the services or programs are generally performed by the County in the unincorporated areas of the County.

Under this definition, the County establishes tax differentials for 13 types of activities across nine different service areas. It also reimburses for debt-related public works, police, fire, and education/library services. It does not reimburse for parks or recreation activities because these are separately funded through MNCPPC taxes, not the County General Fund.

The law specifies the Director of the Office of Management and Budget as program administrator. A Service Category Description Guide, developed by OMB, describes in detail the activities carried out by select County divisions (see Appendix R).

Each fall, as part of its budget responsibilities, OMB manages an application, review and certification process to determine the number and level of municipal services that qualify for reimbursement as substitute County services. By October 7 each year, OMB convenes a kickoff meeting with municipalities to brief them on OMB's working assumptions for the upcoming budget and distributes two forms along with the Services Category Guide.[6]

- Municipalities complete and electronically submit the **Municipal Tax Differential Request Form** to identify the degree to which municipal services are provided in lieu of County services based on the descriptions in the Guide;[7] and

- Municipalities also complete and submit the **Municipal Description of Services Form** to identify each service category for which they are requesting a tax differential. Municipal staff must include a detailed description of each service category and provide information such as "the type of service, the hours and days each service is provided, the number of positions providing each service, the amount and source of funds used to provide each service, and any other relevant information that will help the County determine eligibility. Municipal staff can also "propose other services that you believe could be eligible for a tax differential in future fiscal years."

Municipalities must complete the requests for services they want the County to certify by November 7th. OMB reviews these requests and notifies each municipality in writing by December 7th of its determination about the degree to which a municipality is providing one or more eligible services. Disagreements are subject to negotiations. Municipalities and OMB have until January 15th to reach agreement; otherwise the matter is submitted to a three-member arbitration panel consisting of a member selected by the involved municipality, a member selected by the County Executive, and a member selected jointly by the other two members. An arbitration panel must issue an advisory determination to the County Executive and County Council by February 15th.

Reimbursement Formula. OMB's determination of each municipality's reimbursement rate and the resulting tax differential consists of a four-step calculation. The data sources for these calculations are the approved County budget, the State Department of Assessments and Taxations, and information about eligible services provided by municipalities.

- **Step 1:** OMB first calculates the Net County Service or Program Costs supported by general fund real and personal property tax revenues. The law defines **Net Service Costs** as "the cost for a service or program as reflected in the County's latest adopted Current Expense Budget and support documents increased by the amount of indirect costs, including fringe benefits, applicable to that service or program and reduced by any fees, service charges, grants or other revenue directly attributable to that service or program." OMB aggregates approved budget costs, i.e., compensation, fringe benefits, operating expenses, capital outlay, recoveries, and adds indirect costs based on indirect cost rates developed for each department.

  Next, OMB sorts these costs based on whether they are in-house (operating) costs, or outside service costs. The service costs are adjusted to account for earmarked revenues and the resulting net service costs are sorted based on whether the costs are for countywide services or not. The non-countywide services are those activities in the Guide that are eligible for reimbursement.

[6] Under Sec. 10-186, the County must provide each municipality with a copy of the County's adopted Current Expense Budget and a standardized report form listing each potentially eligible service.

[7] Sec. 10-186 (c) provides that each municipality "shall identify, in ten percent (10%) increments, the degree to which it is providing eligible services to its citizens in lieu of the County providing those services."

- **Step 2:** The **Tax Rate Equivalent** divides each net county service cost by the County property (real and personal) assessable base. When these factors are transferred to the electronic application form, the level of service requested by the municipality multiplied by these factors generates the real and personal property tax rate differentials.

- **Step 3:** Next, OMB uses the tax rate differentials from Step 2 with the results from the previous two years to calculate a **three-year rolling average**. (Note: County legislation enacted in 1997 originally established a five-year rolling average beginning in FY99; the change to a three-year rolling average became effective in FY04.) The use of a rolling average is intended "to provide stability to municipal residents' County tax rates, smoothing what could otherwise be large rate changes that could be triggered by a reorganization of County services, economic fluctuations, changes in municipal service levels or other factors."[8]

- **Step 4:** The final step is to multiply the rolling average (from Step 3) by each municipality's estimated municipal tax base to calculate the **Estimated Tax Relief.**

Results. Table 7-4 (on the next page) shows the results of these calculations for FY14 for the eight largest cities in the County. The Exhibit shows that the structure of the Prince George's County program accommodates various service levels within a service area as well as a variety of services.

[8] Proposed FY14 Budget, Revenue, p. IV-18.

Table 7-4: FY14 Tax Differentials and Service Levels for the 8 Largest Cities in Prince George's County

Municipality	Mt. Ranier	Bladensburg	New Carrollton	Hyattsville	Greenbelt	Laurel	College Park	Bowie
Population:	8,155	9,223	12,248	17,718	23,281	23,346	30,587	55,232
FY14 Tax Differential Value (in $000s)	**$465**	**$509**	**$779**	**$2,461**	**$2,731**	**$4,537**	**$516**	**$8,256**
Service Activities								
Engineering	0%	30%	90%	100%	100%	100%	100%	100%
Debt	100%	0%	100%	100%	100%	100%	100%	100%
Aging	10%	20%	30%	50%	50%	100%	90%	90%
Housing/Com. Dev.	0%	50%	50%	50%	20%	100%	100%	10%
Police Dispatch	100%	100%	0%	100%	100%	100%	0%	0%
Fire Dispatch	0%	0%	0%	0%	0%	0%	0%	0%
Patrol Services	100%	100%	90%	100%	100%	100%	0%	100%
Support Services	90%	70%	90%	100%	100%	100%	0%	90%
Strategic Mngm't	100%	100%	100%	100%	100%	100%	0%	100%
Debt	100%	100%	100%	100%	100%	100%	0%	30%
Admin. Services	0%	0%	0%	0%	20%	30%	0%	0%
Emergency Ops.	0%	0%	0%	0%	0%	30%	0%	0%
Debt	0%	0%	0%	0%	100%	0%	0%	0%
Volunteer Fire	0%	0%	0%	0%	20%	100%	10%	10%
Animal Mgmt	0%	0%	70%	40%	50%	50%	80%	90%
Library	10%	0%	0%	0%	0%	0%	0%	0%
Debt	100%	0%	0%	0%	0%	0%	0%	0%
Street Lighting/ Traffic Control	100%	100%	100%	100%	100%	100%	100%	100%

Source: OLO and Office of Management and Budget, Prince George's County Government.

Additional Observations. The law establishes a Tax Differential Task Force comprised of one representative each from the Office of the County Executive, the County Council and the Office of Management and Budget, two representatives designated by the Prince George's County Municipal Association, and two members from unincorporated areas of the County appointed by the Chair of the County Council. The Task Force is charged with conducting an annual review of the program and rules, including methods to ensure adequate public awareness.

Each year, the County Executive's Proposed Budget reports how much the tax differential reduces overall County General Fund revenues. In the FY14 proposed budget, the differential generates a real property tax revenue reduction of $23.5 million. The budget also notes that FY14 marks the third year since the program started that the credit decreased year over year, and states this is due to the drop in assessable value within the municipalities and budget cuts to some County services due to fiscal constraints.

VIII. Findings

Municipal Tax Duplication (MTD) programs address authority, service and funding issues that are unique to Maryland; specifically, double taxation issues that arise when counties and municipalities deliver similar services. Montgomery County is one of seven counties that must provide a tax differential or a tax rebate to comply with State law.

Last year, at Government Operations Committee worksessions on the Final Report of the Municipal Revenue Sharing Task Force, several questions were raised about the County's current MTD program. The Council requested this OLO study to improve its understanding of MTD programs generally and learn about other jurisdictions' programs before it considers amendments to County law. The Council is particularly interested in strategies to limit subsidies between municipal and nonmunicipal taxypayers.

OLO's research found a body of policy and technical assistance literature exists but standardized program methodologies or formulas do not. Instead, as envisioned in State law, each jurisdiction has a customized approach that reflects its local circumstances. OLO identified strategies in the research literature as well as practices in other jurisdictions that could improve the County's program.

This chapter presents OLO's findings, organized into five sections:

- Legal Framework for Municipal Tax Duplication (MTD) Programs
- An Overview of MTD Terms, Concepts and Methodologies
- The Financial Context for Montgomery County's MTD Program
- Montgomery County's MTD Program
- Comparative Data and Information on MTD Programs

LEGAL FRAMEWORK FOR MUNICIPAL TAX DUPLICATION (MTD) PROGRAMS

Finding #1: State law establishes a general structure for Municipal Tax Duplication (MTD) programs to address "double taxation" of municipal property owners, although the specific design of an MTD program is left to each individual county.

The University of Maryland's Institute for Government Services (IGS) explains that the Maryland Constitution and Code give municipalities and counties "concurrent power … to levy taxes against real property" as well as home rule authority to decide the [discretionary] services they want to deliver.[1] Under the state's fiscal service structure, if a county and its municipalities both levy property taxes to fund an equivalent service, the potential exists for "double taxation" to occur.

More explicitly, the Maryland Municipal League (MML) defines double taxation as follows:

> Double taxation exists (1) when a county and a municipality within that county provide similar services financed with property tax revenues, and (2) when the county does not provide those services within municipal corporate limits because the city or town already does so. In such cases, municipal property owners pay taxes to both the municipal and county governments for a service (or services) they receive only from the municipality.[2]

[1] Shandy and Wilson, Double Taxation and Tax Differentials in Maryland, p. 2.
[2] MML, "Property Tax Double Taxation in Maryland." 2013. p. 1.

The outcome of an MTD program is a transfer of value from a county government to a municipality or its taxpayers that State law[3] defines as a "tax set-off." Section §6-305(a)(2) defines "tax setoff" to mean: (1) the difference between the general county property tax rate and the property tax rate that is set for assessments of property in a municipality; or (2) a payment to a municipality to aid the municipal corporation in funding services or programs that are similar to county services or programs.

In establishing the structure for MTD programs, State law creates two classes of counties: those that must provide a "tax set-off" and those that may provide a "tax set-off" to address double taxation. State law leaves two key components of an MTD program to local decision-makers: 1) the formula for determining the value of the tax set-off; and 2) the payment method used for reimbursement.

MTD formulas. MTD programs must develop a formula to determine the amount of a tax set-off. The Maryland Municipal League (MML) characterizes the choice of a formula as "the most important and most controversial part of the process." The MML advises that formulas be comprehensive and flexible; it cautions against formulas that are too complex or too elaborate. State law (§ 6-305d) requires that a county's MTD formula calculate a tax set-off value based on property tax contributions and that a county's determination of the tax set-off amount consider:

- The services and programs a municipality performs instead of similar county services; and
- The extent that the similar services and programs are funded by property tax revenues.

These provisions establish the basis of the tax set-off value as that part of the service costs attributable to property tax revenue, and a formula that uses this basis accurately resolves the fiscal inequities created by double taxation.

MTD payment method. State law allows a tax set-off to take the form of a tax differential or tax rebate. A tax differential lowers the county general property tax rate for municipal taxpayers. In theory, an MTD program that institutes a differential tax rate to address instances of double taxation maintains County service cost efficiency by limiting the flow of excess revenue to the County government for services it is not in fact providing. The research suggests that differentials assure that municipal taxpayers receive the full benefit of the lower rate, and that putting the lower rate on the tax bill helps create buy-in for the continuation of the program.

A tax rebate maintains the same county general property tax rate for municipal and nonmunicipal taxpayers. This method effectively captures the revenue collected from municipal taxpayers and transfers it to their municipal government in the form of a rebate payment. In theory, an MTD program that provides County reimbursement payments to municipal governments can result in a lower municipal property tax rate since the rebate can be used for services that otherwise would have required a higher municipal property tax rate. In practice, this outcome is difficult to measure.

The research indicates that municipal governments prefer tax duplication reimbursements because they have control over how the funds are spent, and there are advantages to a concentrated benefit versus distribution of a smaller, disbursed benefit to individual taxpayers.

[3] MD Tax-Property Code §§ 6-305, 306

Finding #2: Montgomery County's MTD Program is established in County Code. Under its current interpretation, County law provides for a more generous tax-setoff than that authorized in State law; and it provides for only a municipal tax rebate, not a tax differential.

Two MTD program design issues that State law delegates to the local governing body of a county are: (1) the method to determine the amount of the tax set-off; and, (2) the method of tax set-off payment.

Value of the tax set-off. Section 30A-3, *Determination of amount of reimbursement,* establishes Montgomery County's method for determining the amount of its tax set-off. It specifies that the value of the tax set-off must:

1) approximate the amount of municipal tax revenues required to fund the eligible services; and
2) be limited to the amount the county would expend to provide the eligible services.

Together, the current interpretation of these provisions (in place since 1996) justifies a formula that equates the tax set-off to the full value of the County's estimated service costs. Compared to State law, this interpretation authorizes a more generous tax set-off since the full service cost can exceed the cost share attributable to property tax revenues by 60% or more. In some cases, this approach may result in a tax set-off value that exceeds the amount of the fiscal inequity created by double taxation.

Payment Method. County law provides for only one of the two payment methods authorized in State law. While State law permits counties to authorize a tax differential or a tax rebate, County law only recognizes a municipal reimbursement.

In sum, the design of the County's MTD program authorized under the interpretation of County law in place since 1996 establishes a more circuitous and more expensive solution to double taxation that results in enhanced funding for municipal services. It contrasts with the permissive structure in State law which permits two other options for the County to resolve the issue of double taxation. Specifically,

- The County could resolve the issue of double taxation less expensively and more directly on behalf of the taxpayer by basing the value of the tax set-off on property tax contributions and setting lower general county property tax rates within municipal boundaries; or

- The County could resolve the issue of double taxation less expensively with a rebate payment to municipal governments that bases the value of the tax set-off payment on property tax contributions. The interpretation of County law and MTD program formulas in place between 1982 and 1996 authorized this less expensive municipal rebate payment.

AN OVERVIEW OF MTD TERMS, PRACTICES, AND METHODOLOGIES

Finding #3: In general, administering an MTD program consists of four primary steps that guide program outcomes.

A review of technical studies and county MTD program practices show four major tasks structure the administration of an MTD program.

- **Generate a list of shared services funded by property tax revenues levied by a county and one or more of its municipalities.**

A list of shared services with property tax expenditures is used to differentiate services that give rise to double taxation from the universe of local government services. Typically expenditures for direct program costs qualify for an MTD tax set-off. An MTD program must first differentiate "county-only services", state service mandates provided only by counties, and "shared services", discretionary services that either a county or a municipality can provide.

An MTD program generates a list of shared services by reviewing County and municipal financial data to identify those services that should be excluded from further consideration. A service must satisfy all of the following four pre-requisites to be listed as a shared service funded with County and municipal property tax revenues:

1) The County and one or more of its municipalities must both incur expenditures for the service;
2) The County and one or more of its municipalities must both levy a property tax to fund the service;
3) The service and tax boundaries for the County and municipal services must overlap; and
4) The County and municipal net service costs must each exceed their property tax revenues.

When these pre-requisites are applied to county and municipal financial service data, the following categories of services are excluded from further consideration of double taxation: county-only services (i.e., services such as K-12 education that are provided only by counties as a result of specific mandates and authorities within State law); services funded by non-property tax sources such as enterprise funds or program fees; services funded through special area tax districts; and services that are unique to a subarea of the county or unique to a municipality.

After these exclusions are applied, the remaining categories of services are those accounted for in a county or municipal general fund. Sometimes, non-program expenditures, such as general government activities and miscellaneous spending, will also be excluded from further consideration, leaving only expenditures for direct program costs.

- **Subdivide this list of shared services into two groups: those shared provider services that are reimbursable and those unique, sole provider services that are not reimbursable.**

After a comparative review of county and municipal financial data shows where spending for shared services exists, an MTD program subdivides this list into reimbursable and non-reimbursable services.

Reimbursable services are those designated for an MTD tax set-off because they are part of a countywide shared provider system. County designation as a reimbursable service recognizes that these services merit delivery through a shared provider system with a uniform cost structure.

Non-reimbursable services are unique services delivered by a sole provider. They are not eligible for reimbursement either because they are unique programs or because they are non-program services that exist only because the government itself exists.

If the list of reimbursable services includes similar services with partial or intermittent levels of municipal effort, IGS recommends the use of service rates to address these service differences. IGS advises that the basis for the service rate be the level or rate at which the municipality provides the service. Use of a service rate allows the county to recognize situations where a municipal service is equivalent to a county service, but the municipal level of effort differs.

- **Determine the net program costs of the shared provider reimbursable services using a consistent set of rules to account for the various cost factors and revenues.**

Different methodologies exist for calculating shared provider reimbursable service costs. Most formulas calculate net costs of service and make adjustments for various revenues. The assessable property tax base or unit factors, such as population or mileage, are commonly used to distribute the value of these costs to municipalities. IGS has developed two MTD methodologies for calculating tax differential and rebate amounts. Both methodologies follow the same approach; however, they use different data and they are designed to answer different questions.

The **Saved County Costs** approach uses county expenditure data to generate a reimbursement amount that estimates the county property taxes paid by municipal residents for shared services provided in nonmunicipal areas. The **Municipal Replacement Costs** approach estimates the amount of property tax revenue from nonmuncipal taxpayers that would be required to replace the current level of municipal expenditures.

The IGS methodology for determining costs of services consists of steps to calculate total county or municipal expenditures including factors that adjust for overhead and administrative costs. It also develops a schedule of revenues and subtracts non property tax revenues (both earmarked and general) to determine the property tax funding cost share.

- **Determine the basis for the rebate payment and calculate the tax differential or rebate.**

Different methodologies and different bases exist to calculate a tax differential or tax rebate amount and to determine how the total cost value is assigned to different municipalities.

IGS' calculation of tax differentials and rebate amounts uses municipal and nonmunicipal tax bases to determine the subsequent value or cost to each entity. IGS' technical assistance studies provide methodologies and formulas that calculate costs attributable to property tax funding as required in State law. IGS does not provide calculations for a full tax-supported rebate or differential; however, other programs have developed methodologies to use unit cost factors (e.g., population and road mileage) to determine the total costs to be distributed and then allocate these cost values among the municipalities.

FINANCIAL CONTEXT FOR MONTGOMERY COUNTY'S MTD PROGRAMS

Finding 4: **In 2011, combined County and municipal spending totaled $2.5 billion - $1.8 billion (72%) for county-only services and $691 million (28%) for shared services. Municipal shared services spending totaled $105.5 million. Estimated costs for reimbursable services accounted for 11% ($11.3 million) of this spending.**

The County and its municipalities file annual uniform financial reports with the State Department of Legislative Services. After DLS receives these reports, it publishes a Report of Local Government Finances Data each October. OLO used these 2011 State and County data to create a composite picture of County and municipal expenditures by service responsibility and provider system. The municipal data is cumulative for all the municipalities in Montgomery County. The profile uses County MTD formulas to develop County and municipal estimates for reimbursable and non-reimbursable services.

The State's grant of concurrent home rule authority to county and municipal governments allows either government to provide discretionary services with no requirement for coordination. Or, as IGS observes, "there is no rational guide for determining which services municipalities should perform and which services counties should perform."

This permissive structure creates parallel spending for similar services as well as the State mandate for an MTD program. Since State law mandates a county reimbursement for duplicative services spending, it is possible to differentiate shared provider services from those services county and municipalities deliver independently.

Table 8-1 shows 2011 expenditure data for county-only services and shared services from the County General Fund; corresponding expenditures from the Municipal Operation Funds; and estimates for reimbursable and non-reimbursable costs based on County MTD data.[4]

Combined, municipalities spent $105.5 million on shared services in 2011. Of that total, $11.2 million (11%) represents service costs reimbursed under the MTD program and $94.3 million (89%) represents non-reimbursable services. By comparison, the County spent $198.4 million (34%) for reimbursable services and $387.3 million (66%) for non-reimbursable services. Both entities saw larger spending shares for non-reimbursable (sole provider) services than reimbursable (shared provider) services.

Table 8-1: County General Fund and Municipal Expenditures by Service Responsibility, 2011

Service Type	County General Fund Expenditures	Municipal Operation Fund Expenditures	Total Expenditures
County Only Services	$1.8 billion	--	$1.8 billion
Shared Services			
Reimbursable	$198.4 million	$11.3 million	$210.0 million
Non-Reimbursable	$387.3 million	$94.1 million	$481.4 million
Subtotal Shared	*$585.7 million*	*$105.5 million*	*$691.2 million*
Total	**$2.4 billion**	**$105.5 million**	**$2.5 billion**

Source: Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook

[4] Note that the data excludes expenditures from County and municipal enterprise funds, expenditures from debt service and capital funds, and the County's special area district funds since these services are not a source of county general property tax duplication (i.e, sewer/solid waste, parks and recreation, and debt service). The data also excludes municipal operation fund expenditures for services provided at the County level through enterprise and/or special district funds.)

Finding 5: Due to budget constraints, the County has not funded the MTD program at the rebate formula amount since FY09. In FY13, the approved MTD payment of $7.8 million was $3.8 million less than the rebate formula amount.

Recent County budget constraints have limited MTD payments. Due to budget constraints, the County has not funded the MTD program at the approved formula amount since FY09. Table 8-2 shows the differences between the approved formula and the actual payments from FY07 through FY13. The funding gap peaked at $14.9 million in FY12. In FY13, the County provided $7.8 million in MTD payments, or $3.8 million less than the formula amount of $11.6 million.

Table 8-2: MTD Rebate Formula Results and Approved Payments, FY07 to FY13 (000s)

Results	FY07	FY08	FY09	FY10	FY11	FY12	FY13
Rebate Formula	$7,509	$6,879	$8,705		$9,996	$21,264	$11,582
Actual Payment	$7,459	$7,488	$7,488	$7,488	$6,365	$6,375	$7,777
Difference	($50)	$609	($1,217)	$7,488	($3,631)	($14,889)	($3,805)

Source: OMB. In FY10, the County and municipalities agreed to keep the same payment due to the ongoing work of the 2007 Task Force. As a result, no formula was calculated.

Finding 6: Municipalities in Montgomery County spend an average of $180 more per capita on shared services than the County Government. This difference is attributable to discretionary spending on non-reimbursable shared services.

Both county-only services and reimbursable shared services are delivered countywide with a uniform cost structure. In contrast, services that the County and its municipalities provide independently (i.e., non-reimbursable shared services) have different service areas and different spending levels.

Table 8-3 displays County and municipal per capita spending for non-reimbursable shared services. The data show that municipalities spent approximately $180 more per capita than the County on non-reimbursable shared services in 2011. Since municipal residents receive a combined benefit from both County and municipal spending on non-reimbursable services, this effectively increases a municipal residents' per capita spending and widens the per capita spending gap between municipal and nonmunicipal residents.

Table 8-3: 2011 Per Capita Spending for Non-Reimbursable Shared Services

	County	Municipal
Non-Reimbursable Shared Services		
General Government	$203	$255
Police	$50	$133
Other Public Safety	$27	$45
Transportation	$11	$52
Community Dev and Public Housing	$4	$36
Economic Development	$6	$3
Miscellaneous	$96	$56
Total Shared Services	**$397**	**$580**

Source: Montgomery County Uniform Financial Report, DLS Local Government Finances Handbook

MONTGOMERY COUNTY'S MTD PROGRAM

Finding #7: Four specific issues with the County's conditions for determining reimbursable services create confusion about the County's overall MTD reimbursement policy.

In Montgomery County, three factors – criteria in County law, review and recommendations from periodic task forces and subsequent Council resolutions – govern how the County makes its determinations of reimbursable services. The four criteria used to identify reimbursable services are found in Section 30A-2, *Qualification of municipal public services for county reimbursement*. It states: "Municipal public services shall qualify for county reimbursement if the following conditions are met:

(1) the municipality provides the service to its residents and taxpayers;
(2) the services would be provided by the county if it were not provided by the municipality;
(3) the service is not actually provided by the county within the municipality; and
(4) the comparable county service is funded from tax revenues derived partially from taxpayers in the participating municipality."

A review of the identified reimbursable services in the 1978, 1982 and 1996 Task Force Reports found ongoing references to reimbursements based on "county funding from property tax expenditures" and an ebb and flow of eligibility for reimbursement for different types of services. These patterns show a lack of clarity has emerged over the years about the interpretation of the four conditions in Section 30A-2. OLO indentified four specific issues with the County law that create confusion about overall reimbursement policy:

- **Whether or not the County would provide a service if a municipality does not.** The current criteria allow the County to determine that it would not provide a service if it were not provided by a municipality and thus not reimburse for that service. This stands in contrast to IGS' methodology and programs that use County and municipal budget or expenditure data to determine the existence of reimbursable services.

- **Precluding County/municipal service partnerships.** The requirement that a service is not actually provided by the County within the municipality precludes County/municipal service partnerships. Absent a conceptual approach that recognizes service rates or partial service levels, current County law provides no recognition of municipal expenditure contributions that are not full service substitutes.

- **Tax revenues vs. property tax expenditures.** The State law, the original Gleason report, and all three Task Force reports contain numerous, explicit references to reimbursements based on County property tax expenditures. The language in the reimbursement conditions, however, simply refers to tax revenues and does not distinguish between property tax and other tax revenues. This disconnect creates a fundamental ambiguity about the law's intent and purpose.

- **Application of the MTD law to special district tax revenues.** The reimbursement conditions do not explicitly address whether the law intends for the County to issue rebates for programs funded with special area property tax revenues. While neither County nor municipal boundaries can be redrawn to address the duplicative taxation issues that arise in the general fund, a special area tax district can remedy this issue.

Finding #8: The County's current list of reimbursable services includes different determinations on reimbursement eligibility for seemingly similar services.

Several disconnects exist between the County's current list of reimbursable services, its service funding structures, its payments and municipal services. Recommended practices for the administration of an MTD program apply a set of filters to County and municipal financial data in order to methodically exclude those services that do not give rise to double taxation issues and include those that do. The County's current list of reimbursable services does not reflect a methodical approach. For example, the current list of reimbursable services:

- **Includes reimbursements for park maintenance services, which are not funded through the General Fund.** At the County level, these services are provided and funded through the Metropolitan District, a bi-county special tax district administered by the Maryland National Capital Park and Planning Commission and the Montgomery County Parks Department. Designating these services for an MTD rebate uses taxpayer dollars from the General Fund to resolve a tax equity issue that properly belongs to the Metropolitan District Fund (and that could be resolved through redrawn boundaries).

- **Includes land use hearings provided by one municipality but not others.** County Board of Appeals and administrative zoning hearings are provided by two legislative offices that are accounted for in the General Fund. The current list of reimbursable services issues MTD rebates to the Town of Chevy Chase since it provides its own hearing services; but does not issue rebates to other municipalities, such as Rockville and Gaithersburg, that also provide these services.

- **Excludes Takoma Park library services, which instead receive a rebate under a different County law.** Section 2-35 of the County Code authorizes a property tax rebate payment to the City of Takoma Park outside of the MTD program. Additionally, the method for determining the library rebate amount is comparable to those used by IGS, Anne Arundel and Prince George's counties to determine rebates attributable to the share of a service funded by property tax revenues.

- **Includes a rebate for Takoma Park police services, in addition to a separate rebate provided under a different County law.** Takoma Park receives two rebates for police services, one through the MTD program and another authorized under Section 35-5 of the County Code. The Code establishes pre-set tax rate values for determining that rebate amount (4.8 cents for real property and 12 cents for personal property).

- **Excludes reimbursement for Chevy Chase Village, Gaithersburg and Rockville police services**. The 1996 Task Force Report and subsequent Council Resolution disqualified police patrol services provided by Chevy Chase Village, Gaithersburg and Rockville based on a logic that misapplied the definition of the reimbursement amount as a criteria for determining a reimbursable service. Before this change, these services had been eligible for a rebate since 1982.

Finding #9: The County's use of different MTD cost of service formulas fails to establish an objective basis for the MTD program's administrative determination of tax equity. The current formulas are outdated, lack uniformity, and their results are ignored.

The County's MTD program depends on a collection of formulas that OMB uses to calculate both its costs of service and its subsequent rebate payments. Each of the task forces established in 1978, 1982 and 1996 was charged with reviewing the program's formulas.

Notwithstanding the efforts of these groups, the MTD program's formulas, including gaps between the formula results and the approved payments, have been an ongoing and persistent problem. In 1984, MML reported that "the distribution formula was complicated, controversial and occasionally not fully funded." More recently history shows ongoing mismatches between the MTD formula results and the approved payments. (See Finding 5.)

A review of the formulas that the MTD program uses to calculate costs of services shows the County currently uses three distinct approaches to determine costs of service. Specifically:

- One service type (park maintenance) adjusts prior year payments for inflation;
- Six service types (roads, planning and zoning, animal control, human rights, senior transportation and groceries) use existing or compiled program budget data to develop unit costs; and
- Two service types (Takoma Park crossing guards and police) use personnel costs and/or workload factors.

If Takoma Park police and library rebates are added to the mix, the distinct number of approaches expands to five.

These distinct approaches reflect an ad hoc assortment of events and agreements developed over time. For example, the parks formula uses an inflation factor because the accounting system that supported the parks formula was discontinued in 1988 and the Takoma Park police formula reflects a 2002 memorandum of understanding between the County and the City.

The value of using a consistent set of formulas to make administrative determinations is to bring uniformity, objectivity and credibility to both the process and its results. The County's ad hoc approach stands in contrast to IGS' recommended methodology or programs in other counties where a consistent set of factors is uniformly applied to each service area to determine either their tax differentials or their rebate payments.

Finding #10: The administrative structure for the County's MTD program lacks a set of clear decision documents, a periodic review cycle and a mechanism for resolving errors.

Ideally, the administrative structure for an MTD program has a set of clear decision documents, a uniform set of criteria and formulas, an established program development and review cycle and a mechanism for addressing and resolving omissions and errors.

The County's MTD program currently lacks clarity and a functional administrative structure. The contradictions that exist between the law and the program's governing documents leave the program's purpose open to question. The use of intermittent Task Force reports and Council Resolutions produces one-time, all or nothing decisions that remain in effect for an indefinite period of time. And, the lack of a regular review cycle or an appeal process, means no mechanism exists to address and resolve issues that arise due to municipal changes in service, mistakes or other external changes.

Finding #11: Municipal stakeholders perceive that, despite its good intentions, the MTD program in its current form does not adequately address persistent tax differential issues and that it has an inherently political element.

Feedback from a focus group and interviews with municipal representatives identified several issues with the current administration of the MTD program. Representatives emphasized that despite their concerns about the MTD program they value their good working relationships with County departments generally.

Participants shared specific concerns about the County's reimbursement payments and its formulas. Concerns with the payments were that they did not meet municipal expenses. Participants suggested this is due in part to outdated reimbursement formulas and a shift of administrative responsibilities from the County to the municipalities.

Other participants suggested that the cost formulas are not realistic. There were widely shared concerns that no consistent methodology exists for either revising or updating the formulas and observations that the formulas are recalculated infrequently. One participant reported that although they initiated action to update a formula themselves the issue was still unresolved.

Suggestions from municipal representatives for improvement include:

- more regular identification of the elements of each formula as well has how recently they are updated;
- allowing reimbursement payments for "non-recurring costs;"
- establishing an "audit process" for the formulas; and
- releasing relevant information to municipalities ahead of when it is released in the budget so municipalities would have a chance to locate and correct potential errors.

Finding 12: In addition to MTD programs, Maryland's shared revenue structure also requires municipalities receive a share of county income taxes. Over the years, some studies and/or organizations have expressed concern over the combined value of these revenue sources relative to actual municipal expenditures.

Both the state mandate for distributing a share of county income taxes to municipalities and the state mandate to implement tax differentials or issue tax rebates are intended to ensure municipalities have access to county revenues to fund their discretionary services. The state envisioned these revenues could relieve pressure on local municipal property tax rates and, in the case of the property tax differential, ensure fairness for municipal taxpayers.

Both state mandates transfer county general fund dollars to municipal households to support municipal spending priorities. The first transfers a share of county income tax revenue and the second transfers a share of county property tax revenue.

Unlike the countywide income tax offset credit that the Council sets as part of its budget process, these two programs are uniquely available to municipal governments (in the case of the shared county income tax or a property tax rebate) or municipal property owners (in the case of a property tax differential.)

Since municipal spending can only support discretionary services, one effect of these programs is to reduce county general fund resources available to fund state imposed county-only services. A key difference between the two programs is that a County Council can control the amount of the property tax rebate through the formulas it approves to administer the MTD program; it cannot control the shared county income tax revenue since this is based on the income earnings of municipal residents.

Historically, the combined impact of an MTD program and the shared county income tax program has come up as part of several reviews and analyses. For example, in 1970 the Maryland Legislative Council Committee on Taxation and Fiscal Matters published a study that recommended against a statewide MTD program, stating: "the existing allocation of State Shared taxes among counties and municipal corporations and the existing requirements for the counties to make certain revenues available to municipal corporations have created instances where municipal corporations are receiving a disproportionate share of revenues for the type of services provided."[5]

More recently, IGS' also discusses the combined influences of municipal home rule, the state shared revenue structure and MTD programs. It states:

> [T]he amount of state-shared revenue generated by Maryland's tax structure and allocated to counties and municipalities has a substantial impact upon the justification for, and the size of, tax differentials. If a municipality provides very few services, it is possible that the state-shared revenues received by the municipality to help it fund these services will exceed the equivalent amount of county property tax levied against municipal residents to fund a parallel county service. In this case, no tax differential would be awarded.[6]

Finding #13: When a municipality's share of county income tax exceeds its shared provider costs, an MTD tax set-off does not resolve a fiscal inequity between municipal and nonmunicipal taxpayers due to double taxation; instead, in those instances, the MTD payment creates a further disparity.

The stated purpose of many MTD programs is to resolve an inequity borne by municipal taxpayers created by double (property) taxation. However, when the effects of the shared county income tax are included, the fiscal inequities attributable to double property taxation may be lessoned or disappear altogether if the value of the shared county income tax meets or exceeds municipal shared service expenditures.

[5] County Property Tax Rate Differential for Municipal Residents, p. 330.
[6] Shandy and Wilson, p. 10.

To address this IGS advises "It is possible that no tax differential could be awarded to small municipalities that provide very few services. In order to justify a tax differential from the county, a municipality must provide a sufficient number of services to offset the state shared revenue that it receives."[7]

In FY11, 20 of the 22 municipalities in Montgomery County received a share of county income tax revenue that exceeded their total reimbursable shared service costs. Under a strict application of the IGS methodology described above, i.e., a comparison of shared county income tax to costs attributable to property tax revenue, no municipalities would have qualified for a MTD reimbursement in FY11. Under a less strict approach that aligns with the County's current administration of the MTD program, i.e., a comparison of shared county income tax to total reimbursable costs, only two municipalities would have qualified for a MTD reimbursement in FY11.

COMPARATIVE DATA AND INFORMATION ON MTD PROGRAMS

Finding #14: Statewide, seven counties provide tax differentials, seven provide rebates, and four provide a combination of both.

The exhibit below shows the type of MTD program in 18 Maryland counties. The counties without an MTD program either do not have municipalities (Howard and Baltimore) or have opted not to implement a program (Queen Anne's, Wicomico, and Worcester).

Exhibit 7: Maryland Counties with Municipal Tax Duplication Programs

Mandatory	Program Type*		Voluntary	Program Type*	
	Differential	Rebate		Differential	Rebate
Allegany	✓		Calvert	✓	
Anne Arundel	✓		Caroline	✓	
Frederick		✓	Carroll		✓
Garrett	✓	✓	Cecil		✓
Harford	✓	✓	Charles	✓	
Montgomery		✓	Dorchester	✓	✓
Prince George's	✓	✓	Kent		✓
			Somerset		✓
			St. Mary's		✓
			Talbot	✓	
			Washington	✓	

*As of 2012. Source: OLO and DLS

[7] Shandy and Wilson, p. 2.

Finding #15: A high degree of variation exists among MTD programs across the state in terms of total reimbursement, per capita value of the tax set-off, and types of services qualifying for reimbursement.

MTD payment data from annual tax set-off reports published by the Department of Legislative Services as well as MTD program data from the State's 25 largest municipalities shows:

- In the seven counties with mandatory programs, the counties with the highest tax set-off values in FY12 were Prince George's ($33.1 million), Anne Arundel ($26.2 million), Frederick ($7.4 million) and Montgomery ($6.3 million).

- On a per capita basis, Annapolis receives the largest tax set-off (valued at $674 per person) while College Park ($14 per person) and Gaithersburg ($17 per person) receive the smallest tax set-offs.

- The most heavily represented service areas were police (20 municipalities), public works (12 municipalities) and code enforcement (10 municipalities).

- Among the mandatory programs, eight Prince George's municipalities provided the highest number of services (ranging from 7 to 9 services), followed by two Allegany County municipalities (6 services), Annapolis (5 services), and three Montgomery County municipalities (3 to 4 services).

- The cities of Frederick, Rockville, Gaithersburg and Bowie are the four largest municipalities in the state; however, Bowie's per capita tax set-off rate ($176 per person) is roughly six times that of Rockville's ($30 per person) and ten times that of Gaithersburg ($17 per person). The City of Frederick's per capita reimbursement is $76.

Finding 16: A detailed review of MTD programs in Anne Arundel, Frederick, and Prince George's counties reveals several notable program features, many of which serve to enhance the clarity and simplicity of the programs.

Chapter VII includes an in-depth review and description of MTD programs in Anne Arundel, Frederick, and Prince George's counties. Two general comparative observations are listed below, followed by a summary of notable features of each county's program.

- Anne Arundel and Prince George's counties use a tax differential payment method; Frederick County gives its municipalities the option to choose their payment method.

- Anne Arundel and Prince George's counties base their tax differentials on net costs attributable to property tax revenues; Frederick County uses formulas that calculate full service costs capped by a factor that reflects municipal revenue contributions.

Anne Arundel County. A provision in state law, unique to Anne Arundel County, prohibits imposing a county property tax on "property of a resident of a municipal corporation for any service that the municipal corporation provides for the resident." [8] While the only municipality in the County is the City of Annapolis, this provision effectively creates distinct lines of authority, distinct service area boundaries and simplifies the determination of reimbursable services. This structure allows Anne Arundel to convert nonmunicipal service costs into a tax differential since those costs directly reflects County property tax dollars spent for services that are not provided to Annapolis' residents.

Frederick County. Frederick County's program is most similar to Montgomery County's, but also has three unique structural features:

- A two-pronged formula for calculating total reimbursement costs, using the lower of the two results as the basis for the distribution. The formula has an approach for determining net service costs and unit cost factors that is consistent across all service areas.

- A "CAP factor" that sets a ceiling on the total cost calculation for each service area, and is designed to prevent over-reimbursement by nonmunicipal taxpayers.

- The redistribution of "excess" rebate payments. When the rebate payment allocated to a particular municipality under the formula exceeds its actual expenditures for that reimbursable service, the excess payment is redistributed to other municipalities where the rebate amount was lower than expenditures.

Prince George's County. Prince George's County has several program features (developed in consultation with IGS), including application forms, an electronic application process, a kickoff meeting, and a written guide of services to advise the municipalities on the service categories and activities that are eligible for reimbursement, that allow for consistency in the program's structure. Other features from Prince George's County include: the use of service rate factors for partial municipal service contributions; the practice of soliciting municipal expressions of interests about services that merit reimbursement; and the use of a rolling average to bring stability to the municipal payment stream. The rolling average is intended "to provide stability to municipal residents' County tax rates, smoothing what could otherwise be large rate changes that could be triggered by a reorganization of County services, economic fluctuations, changes in municipal service levels or other factors."[9]

[8] MD Tax Property Article § 6-307
[9] Proposed FY14 Budget, Revenue, p. IV-18.

IX. Recommendations

In accordance with State and County law, Montgomery County provides a municipal tax duplication (MTD) program to address potential double taxation of municipal residents who pay property taxes to both the County and a municipality for certain similar services. The Council requested this study to gain a better understanding of MTD programs, with a particular interest in strategies that can increase the fairness and transparency of Montgomery County's program.

As detailed in the previous chapter, OLO found that the County's MTD program has a complicated law, an inconsistent set of reimbursable services, an assortment of ad hoc formulas and methodologies, and rebate results that are not always followed. As a result, the Council has an opportunity to "reset" the MTD program in a manner that will ensure an effective, evidence-based, fair, and transparent structure going forward. This chapter outlines OLO's recommendations for the Council's consideration.

Recommendation #1: Implement nine revisions to strengthen the fairness, uniformity and sustainability of the County's MTD Program.

This recommendation proposes nine revisions to the MTD Program's current list of reimbursable services, its cost of services methodology and its payment methods. OLO recommends that the Council review and discuss each revision, and make a formal determination on whether it will proceed with each by amending the County Code that authorizes the MTD program and/or updating the Council Resolution that establishes the County's MTD policy.

Since the intent of MTD programs is to establish and administer local tax policy, final decisions about the methodologies that are used to determine reimbursable services, the formulas that determine tax set-off values, and who administers them belong to the Council as the local governing body.

In brief, OLO recommends:

- Re-establishing property tax revenue as the basis for MTD payments and providing the option for property tax differentials;
- Instituting a uniform approach to cost of service determinations that relies on unit cost factors and readily available data;
- Recognizing partial service levels of effort and re-instating police patrol services for Chevy Chase Village, Gaithersburg and Rockville if they agree to be first responders; and,
- Other changes, e.g., to Takoma Park rebates, park maintenance and land use hearings, to better align the MTD program with the County's fiscal service structure.

Together, these revisions are intended to simplify and standardize the County's MTD formulas; enhance the consistency of reimbursement across municipalities; improve the transparency and fairness of the MTD program for municipal participants through a consistent set of formulas based on readily available data; and address the issue of disproportionate nonmunicipal taxpayer subsidies.

These revisions will change both the total cost of the MTD program and each jurisdiction's rebate amount. A set of tables at the end of this chapter provide estimates to show the MTD program costs and payments with these proposed revisions and how these new payments compare to those in FY13.

Revision A: **Revise the MTD payment formula to reimburse on a property tax cost basis instead of a full service cost basis to better align the County's MTD program with State law and the State's shared revenue structure.**

State law requires that Montgomery County reimburse eligible municipalities for inequities caused by duplicative property tax payments for shared services. However, since 1996 County policy has used a rebate formula that bases the payment amount on the County's full service costs. Under this formula, the County's payment amount is two to five times higher than it would be if the formula based the payment amount on the share of service costs attributable to property tax revenue.

Also, State law requires MTD rebate payments (for property tax duplication) within the context of the State's shared revenue structure that also redirects a County income tax payment to each municipality. As a result, a municipality can receive a County MTD rebate and a County income tax payment that exceeds the costs of its reimbursable services.

When the combined County revenue from the income tax payment and MTD rebate exceed a municipality's reimbursable shared service costs, the net effect is a nonmunicipal taxpayer subsidy for municipal services. This nonmunicipal tax duplication issue arises when nonmunicipal taxpayers are charged twice to reimburse municipal taxpayers for municipal services they cannot access.

IGS recommends that the local design of an MTD program first examine the relationship between the county income tax revenues a municipality receives and its shared service expenditure obligations to determine if a MTD payment is warranted.[1] In FY11, 20 of 22 Montgomery County municipalities had shared county income tax revenue that exceeded the full cost of their municipal reimbursable services, thus creating an "excess credit" situation even before the MTD payment was taken into account.

To limit the unintended effects of the shared revenue structure on nonmunicipal taxpayers and to more closely align the County's program with State requirements, OLO recommends that the Council support revising the MTD formulas to reimburse on a property tax basis instead of a full cost basis.

Revision B: **Give municipalities and their taxpayers an option to make a one-time election for either a County property tax rate differential or a property tax share municipal rebate payment.**

While State law permits tax set-offs to be either a lower County property tax rate (a tax differential) or a municipal rebate payment, current County law provides for a rebate payment only.

MTD research suggests that municipal governments usually prefer tax rebate payments because they have control over how the funds are spent. Also, some perceive that the advantages of a concentrated rebate payment outweigh the smaller tax differentials.

The Maryland Municipal League states that an advantage of a tax differential is that it gives each municipal taxpayer a personal stake in its continuance. From a governance perspective, a tax differential is the only method that returns the "saved" County revenue directly to the taxpayer.

[1] As IGS advises "It is possible that no tax differential could be awarded to small municipalities that provide very few services. In order to justify a tax differential from the county, a municipality must provide a sufficient number of services to offset the state shared revenue that it receives." Shandy and Wilson, p. 2.

A key issue OLO heard from its focus group of municipal representatives was the unpredictability of the County's rebate payment. These concerns are validated by the County's recent history, which funded rebate payments at a level almost $4 million below the approved formula amount. This experience suggests that the stated advantage of a municipal tax rebate giving municipalities more control gave way during the economic downturn. Given this recent experience, County and municipal officials may want to discuss whether a tax differential could limit the unpredictability of MTD payments during an economic downturn or alternatively improve the sustainability of the MTD program.

OLO recommends that the Council allow each municipality a one-time option to choose whether it wants to provide its residents with a property tax differential or receive a municipal rebate payment. A variation of this model was adopted by Frederick County when it revised its MTD program in 2011. Currently, Prince George's County and Anne Arundel County also administer tax differentials.

<u>Revision C:</u> Fund park maintenance service rebates with revenue from the Metropolitan District, or redraw the Metropolitan District boundaries to eliminate the need for park maintenance reimbursement payments within the MTD program.

The Council currently funds MTD program rebates for park maintenance out of the General Fund despite the fact that the Metropolitan District, a special area property tax district, exists to fund park maintenance and other park activities. Both IGS and MML note that special area tax districts can serve as a vehicle to resolve the tax equity issues that would otherwise require a municipal tax duplication program. Also, the formula that the MTD Program uses to calculate rebate amounts is outdated. A subcommittee of the Municipal Revenue Sharing Task Force developed a proposal to update the methodology for calculating park maintenance service costs.

OLO recommends that the Council revise current practice for park maintenance reimbursement under the MTD program through one of the two options listed below:

- Endorse re-drawing the boundaries of the County's Metropolitan District to exclude those municipalities that currently pay both Metropolitan District property taxes and fund park maintenance activities through municipal property taxes. This action would remove any potential double taxation for park maintenance services and eliminate the need for these services to be included in the MTD program; or
- Adopt the updated methodology for calculating park maintenance service costs as endorsed by the Municipal Revenue Sharing Task Force, and fund the annual payments determined under this methodology with revenue collected from the Metropolitan District Tax.

Since the Metropolitan District is a state established bi-county tax district, re-drawing the tax district boundaries may require state legislation. Adoption of the updated methodology option could be included as part of an updated Council resolution. Additionally, either revision option could require action from the Montgomery County Parks Commission.

<u>Revision D:</u> Transfer the Takoma Park Library rebate, currently authorized as a separate payment in County law, into the MTD Program.

The current library rebate to the City of Takoma Park is a tax duplication payment, as it reimburses the City for that portion of County property tax payments that City residents pay for County library services. As such, the library rebate clearly falls within the scope of the MTD Program.

OLO recommends that the Council continue to reimburse Takoma Park for library services, but do so as part of the MTD program instead of under a separate County law. Consolidating the tax duplication determinations for all services into one program would improve the County's ability to make uniform cost of service determinations and improve the County's overall tax duplication governance structure.

This action may require amending County law to eliminate the stand-alone rebate payment and clarify that library services reimbursement should be funded through the County's MTD program.

<u>Revision E:</u> Include land use administrative hearings as reimbursable services under the MTD program for all municipalities in the County that provide these services.

The MTD program currently issues a rebate payment for board of appeals and zoning administration hearings to only one municipality, the Town of Chevy Chase. Seven other municipalities in the County provide their own land use administrative hearings that are funded by city property taxes but do not receive an MTD reimbursement. As a result, the residents of these seven municipalities pay county property taxes to the County General Fund that pay for County land use administrative hearings that the municipal residents do not use. This is the type of double taxation issue a Municipal Tax Duplication program exists to address.

OLO recommends the Council update the MTD program policy so that reimbursements for land use administrative hearings are provided consistently across qualifying municipalities.

<u>Revision F:</u> Revise current cost of service formulas with a methodology that uses available activity and/or relevant program data to develop unit cost factors for crossing guards, human relations and library services.

The effective administration of an MTD program requires a consistent set of formulas to bring uniformity, objectivity and credibility to the processes that MTD uses to determine tax set-offs. OLO found the County's MTD program's formulas have been an ongoing and persistent problem.

The current mix of MTD formulas includes some that calculate net per capita service costs. Specifically, the County uses this approach to calculate rebates for animal control, board of appeals and zoning hearings, and senior groceries and senior transportation services.

OLO recommends that the County adopt this unit cost methodology for crossing guards, human relations, and library services. In effect, this approach uses the County's average net per capita service cost as a proxy to assign a value to a municipal service that reflects its proportionate contribution to a countywide service network. This approach sacrifices some precision compared to current formulas in exchange for more consistent, transparent and predictable service cost determinations. Developing and updating a schedule of unit costs would also allow municipalities to replicate the County's calculations and estimate their own payment amounts as soon as the County posted a schedule of unit cost factors.

OLO recommends following IGS recommended practices and adapting the process steps that Frederick County uses to calculate its initial service area costs.

1) The first step establishes the Total Program Costs.
2) The second step subtracts service and program related revenues from the Total Program Costs to determine the Net Program Costs.

3) The third step divides the Net Program Costs (from step 2) by the population of the County's service area to determine the County's per capita service cost; and
4) The fourth step multiplies the unit cost (from step 3) by the sum of the municipal populations not served by the County to determine the total municipal cost share.

Revision G: **Revise the methodology for transportation services reimbursement to determine the County's net costs per mile using data from the Local Highway Finance Report filed annually with the State.**

The existing transportation services formula already calculates a per mileage cost factor and uses unit cost factors for discrete maintenance activities. A subcommittee of the Municipal Revenue Task Force proposed revisions to this formula but municipal and Executive representatives were not able to reach a consensus recommendation.

Montgomery County annually files a Local Highway Finance Report with the State as an attachment to the Uniform Financial Report. The Local Highway Finance Report captures both revenue and expenditure data. The reported revenue items include State Highway User Revenues and General Fund appropriations, and the reported expenditure items include capital outlays, maintenance, road and street services, General administration and miscellaneous, and highway law enforcement and safety.

OLO recommends that the Council endorse revising the MTD reimbursement formula to use these annual reporting data to calculate the County cost per mile for transportation services using three expenditure components: 1) maintenance, 2) road and street services, and 3) general administration. Adopting this revision will ensure a consistent and repeatable set of expenditure data are used each year to determine per mile costs. The calculations proposed under this revision would consist of the following steps:

1) Sum the expenditures for Road Maintenance, Road and Street Services and General Administration and use this result as the Total Transportation Service Cost.
2) Divide the General Fund appropriation into total receipts to determine the General Fund contribution. Multiple this ratio by the Total Transportation Services Cost (from Step 1) to determine the General Fund's Program Cost.
3) Prepare a Schedule of Transportation Revenues from the UFR Revenue Schedule and subtract these revenues from the result in Step 2 to determine the Net Activity Cost.
4) Divide the Net Activity Cost (from Step 3) by the County maintained mileage to determine the County's average service cost per mile.
5) Multiply this factor by the municipal miles to determine the proxy amount for the municipal cost of transportation services.

Revision H: **Provide a single reimbursement payment for Takoma Park police services through the MTD program by eliminating the stand-alone payment authorized in the County Code. Revise the current repayment methodology to utilize a unit cost formula.**

Currently, the methodologies for the Takoma Park police services rebate consist of one payment outside of the MTD program, i.e., a property tax rebate authorized in the County Code, and one payment within the MTD program that relies on an assortment of personnel data and position costs to develop a County cost that replicates City service levels as detailed in a 2004 memorandum of understanding. The Municipal Revenue Sharing Task Force did not address either formula.

OLO recommends that the Council consolidate all rebate payments for Takoma Park police services into the MTD program. Consolidating the tax duplication determinations for all services into one program would improve the County's ability to make uniform cost of service determinations and improve the County's overall tax duplication governance structure.

Additionally, OLO recommends that the Council endorse the use of a unit cost reimbursement methodology as detailed above in the proposed revisions for other service areas. The calculations proposed under this revision would consist of the following steps:

1) Establish Total Police Expenditures from the County's Uniform Financial Report as a control total.
2) Subtract the Total Service Costs for Animal Control Field Services and Crossing Guards.
3) Prepare a schedule of police revenues from the UFR Revenue Schedule and subtract these revenues from the result in Step 2. This result is the Net Cost for Police Services.
4) Divide the Net Activity Cost (from Step 3) by the population served by the County to determine the County's average per capita service cost.
5) Multiply this factor by the municipal population for Takoma Park to determine the proxy amount for the municipal cost of police services.

Revision I: **Incorporate the use of service rate factors as part of the County's MTD program, and re-institute reimbursement for police patrol services in Chevy Chase Village, Gaithersburg and Rockville under the partial service rate model.**

IGS' recommended practices for MTD programs include the concept of service rates so counties can recognize and credit their municipalities' partial service contributions. County law currently precludes County/municipal service partnerships with partial service level contributions by a municipality. Prince George's County's MTD program makes extensive use of service rates.

Montgomery County's lack of service rates may have been a contributing factor in the 1996 decision to de-list police patrol services provided by Chevy Chase Village, Gaithersburg and the City of Rockville as reimbursable activities. The Municipal Revenue Sharing Task Force addressed this issue but it did not reach consensus.

OLO recommends the Council qualify police patrol services provided by Chevy Chase Village, Gaithersburg and Rockville as reimbursable services in exchange for municipal commitments that their patrols serve as primary responders on calls dispatched by the County inside municipal boundaries. The rationale for adding these services back is that municipalities currently incur expenses for these services, and that County and municipal police patrol activities are comparable.

If the County and the municipalities reach agreement to re-instate patrol services, OLO recommends that the Council discuss development of a service rate methodology with municipal officials and Executive representatives.

OLO's analysis of calendar year 2012 MCPD police event dispatch data and data provided by Chevy Chase Village yielded municipal service rates of 16% for Chevy Chase Village, 42% for Gaithersburg and 73% for Rockville. The Gaithersburg and Rockville service rates are the share of police events within each municipal boundary that were handled exclusively by municipal units. The service rate for Chevy Chase Village is the ratio of MCPD dispatched calls to total Chevy Chase Village calls for service responses. In Tables 9-4 and 9-6, these service rates are applied to the municipal population data to determine the population that did not receive County services (70,166), and the total municipal service cost estimate ($7.3 million) based on the County's per capita patrol services cost of $105.

Recommendation #2: Establish and fund a Municipal Grant Program to close municipal funding gaps for the full cost of reimbursable services and to fund non-recurring expenses or other initiatives. Structure the program to cap total annual funding at an amount equal to the total payment for reimbursable services and require a municipal matching contribution.

OLO heard from municipal stakeholders that a source of funding for non-recurring expenses is needed and that the County could benefit from reimbursing municipalities for services they provide that extend County services. OLO also recognizes that neither County funding priorities nor municipal wealth bases are uniformly consistent across the county. This recommendation would establish a grant program to provide a source of funds for non-recurring expenses and allow policy makers the flexibility they need to make funding decisions to address areas of need in municipalities.

Given the diverse needs and wealth characteristics of the County's municipalities, OLO recommends the first claim on available funds be used to close gaps that arise between the full cost of each municipality's reimbursable services and its shared county income tax revenue. OLO's analysis of FY11 costs and revenues identified two municipalities – Takoma Park and Washington Grove - that would have qualified for this type of grant. (See Table 9-8 for a calculation that reflects the proposed changes to the service cost formulas.)

Awards could also be used to fund pilot projects that would align with existing or planned County initiatives, e.g. municipal projects to expand the County's social services outreach or after school programs. OLO suggests the Council consider convening each fall with interested municipalities to discuss other possible shared service initiatives and funding.

To maintain equity and protect the interests of nonmunicipal taxpayers, annual appropriation for this grant program should be capped at an amount equal to the total payment to reimburse municipalities for their reimbursable services and the program should require a matching municipal contribution. OLO suggests that the Council solicit the interest of the County chapter of the Maryland Municipal League in partnering with the Council to implement this program.

Table 9-1: Full Cost of Service Calculations for Unit Cost Model without Police Service Rates (Option A)

Service Category/Activity (1)	Transportation Services Expenditures and Revenues	General Fund Service Costs	General Fund Program Revenues	General Fund Net Service Costs	# of Units Served	Per Unit Cost	Units Not Served	Cumulative Municipal Service Costs
Transportation (2)	$ 89,259,530	$ 55,716,070	$ 2,352,970	$ 53,363,100	2,239	$ 23,833.45	350.60	$ 8,356,008
Road Maintenance	$ 18,559,810							
Road and Street Services	$ 62,616,911							
General Administration	$ 8,082,809							
General fund appropriation (I.A2)	$ 253,171,843							
Total receipts	$ 405,592,132							
General fund share	62%							
Police (3)		$ 202,113,605						
Animal Control Field Services		$ 944,201			854,298	$ 1.11	121,141	$ 133,889
Crossing Guards		$ 4,230,452			958,724	$ 4.41	16,715	$ 73,756
Takoma Park Police Services		$ 196,938,952	$ 33,915,917	$ 163,023,035	958,724	$ 170.04	16,715	$ 2,842,247
General Government (4)								
Board of Appeals (5)		$ 596,995	$ 229,963	$ 367,032	845,378	$ 0.43	130,061	$ 56,468
Libraries		$ 28,292,193	$ 5,032,904	$ 23,259,289	958,724	24.26	16,715	405,517
Human Relations		$ 2,107,950	$ 103,900	$ 2,004,050	914,230	$ 2.19	61,209	$ 134,174
Senior Groceries		$ 556,754		$ 556,754	970,741	$ 0.57	4,698	$ 2,694
Senior Transportation		$ 655,391		$ 655,391	970,741	$ 0.68	125,839	$ 84,960
Zoning Admin Hrgs (5)		$ 491,723	$ 35,080	$ 456,643	845,378	$ 0.54	130,061	$ 70,254
GRAND TOTAL								**$ 12,159,968**

Data Sources: (1) Services include land use hearings and exclude park maintenance; (2) Transportation UFR Local Highway Report; (3) Police Total Expenditiures from UFR; FY11 Actual Police Revenues from Approved FY13 Budget; Animal Control and Crossing Guard Total Costs from OMB MTD Program; (4) Total Costs and revenues for all activities from OMB MTD Program data and OMB Library Property Tax Rebate calculations; (5) The population data reflect expanded rebates for land use hearings.

Property Tax Revenue (UFR)	$1,061,582,080
Total Revenue	$2,659,267,323
Property Tax Share	40.00%
Cumulative Municipal Costs	$ 12,159,968
Property Tax MTD Payment	**$ 4,863,987**

Table 9-2: Full Cost of Service Estimates by Municipality for Option A

Municipality	Transportation Services	Animal Control	Crossing Guards	All Police	Board of Appeals	Library Services	Human Relations	Senior Groceries	Senior Trans.	Zoning Hearings	Total - Full Cost of Service
	$ 23,833	1.105	$ 4.41	$ 170.04	$ 0.43	24.26	$ 2.19	$ 0.57	$ 0.68	$ 0.54	
Barnesville	$ -				$ 74.68					$ 92.91	$ 168
Brookeville	$ 15,968				$ 58.18					$ 72.38	$ 16,099
Chevy Chase Sec III (1)	$ 53,149										$ 53,149
Chevy Chase Sec V	$ 38,134										$ 38,134
Chevy Chase View	$ 81,034										$ 81,034
Chevy Chase Village	$ 193,528										$ 193,528
Town of Chevy Chasen (1)	$ 236,428				$ 1,226					$ 1,525	$ 239,179
Drummond	$ 9,057										$ 9,057
Friendship Heights (1)	$ 19,543							$ 2,694	$ 3,172		$ 25,410
Gaithersburg	$ 2,096,867	$ 66,239			$ 26,020				$ 40,463	$ 32,373	$ 2,261,962
Garrett Park	$ 95,095										$ 95,095
Glen Echo	$ 40,755										$ 40,755
Kensington (1)	$ 194,719										$ 194,719
Laytonsville	$ 25,502				$ 153					$ 191	$ 25,846
Martin's Addition	$ 52,672										$ 52,672
North Chevy Chase	$ 46,952										$ 46,952
Oakmont	$ 6,435										$ 6,435
Poolesville	$ 413,510				$ 2,120					$ 2,637	$ 418,267
Rockville	$ 3,719,449	$ 67,650			$ 26,575		$ 134,174		$ 41,325	$ 33,063	$ 4,022,236
Somerset	$ 101,054										$ 101,054
Takoma Park (1)	$ 827,736		$ 73,756	$ 2,842,247		405,517					$ 4,149,256
Washington Grove	$ 88,184				$ 241					$ 300	$ 88,725
Totals	$ 8,355,770	$ 133,889	$ 73,756	$ 2,842,247	$ 56,468	405,517	$ 134,174	$ 2,694	$ 84,960	$ 70,254	$ 12,159,730

(1) Payments exclude Park Maintenance for Chevy Chase Sec III ($4,056), Town of Chevy Chase ($9,681), Friendship Heights ($75,997), Kensington ($39,077), Takoma Park ($76,440)

Table 9-3: Property Tax Rebate Payments by Municipality for Option A

Municipality	A Proposed Full Cost of Service (from Table 9-2)	B Proposed Payment Method (Property Tax Share is 40%)	C FY13 Actual Payments without Parks (1)	D Effect of Payment Method Change (B-C)
Barnesville	$ 168	$ 67		$ 67
Brookeville	$ 16,099	$ 6,440	$ 6,794	$ (354)
Chevy Chase Sec III (1)	$ 53,149	$ 21,259	$ 28,471	$ (7,212)
Chevy Chase Sec V	$ 38,134	$ 15,253	$ -	$ 15,253
Chevy Chase View	$ 81,034	$ 32,413	$ 41,275	$ (8,862)
Chevy Chase Village	$ 193,528	$ 77,411	$ 100,524	$ (23,113)
Town of Chevy Chasen (1)	$ 239,179	$ 95,672	$ 124,887	$ (29,215)
Drummond	$ 9,057	$ 3,623	$ 4,613	$ (990)
Friendship Heights (1)	$ 25,410	$ 10,164	$ 20,131	$ (9,967)
Gaithersburg	$ 2,261,962	$ 904,785	$ 1,168,467	$ (263,682)
Garrett Park	$ 95,095	$ 38,038	$ 47,593	$ (9,555)
Glen Echo	$ 40,755	$ 16,302	$ 20,762	$ (4,460)
Kensington (1)	$ 194,719	$ 77,888	$ 114,082	$ (36,194)
Laytonsville	$ 25,846	$ 10,338	$ 12,991	$ (2,653)
Martin's Addition	$ 52,672	$ 21,069	$ 26,832	$ (5,763)
North Chevy Chase	$ 46,952	$ 18,781	$ 23,918	$ (5,137)
Oakmont	$ 6,435	$ 2,574	$ 3,278	$ (704)
Poolesville	$ 418,267	$ 167,307	$ 210,634	$ (43,327)
Rockville	$ 4,022,236	$ 1,608,894	$ 2,116,671	$ (507,777)
Somerset	$ 101,054	$ 40,422	$ 52,560	$ (12,138)
Takoma Park (1) (2)	$ 4,149,256	$ 1,659,702	$ 3,440,730	$ (1,781,028)
Washington Grove	$ 88,725	$ 35,490	$ 44,922	$ (9,432)
Totals	$ 12,159,730	$ 4,863,892	$ 7,610,136	$ (2,746,244)

(1) Cost of Service and Payment Calculations exclude Park Maintenance for Chevy Chase Sec III ($4,056), Town of Chevy Chase ($9,681), Friendship Heights ($75,997), Kensington ($39,077), Takoma Park ($76,440)

(2) The $1.8 million reduction in the Takoma Park payment does not account for proposed elimination of the Takoma Park Police and Library property tax rebates. In FY13, these rebates totaled $1.1 million; the Police Rebate was $950,000 and the Library Rebate was $151,000. In FY13, these rebates plus Takoma Park's FY13 Actual MTD Payment of $3.44 million totaled $4.54 million. The effect of the proposed payment of $1.7 million results is a reduction of $2.88 million.

Table 9-4: Full Cost of Service Calculations for Unit Cost Model with Police Service Rates (Option B)

Service Category/Activity (1)	Transportation Services Expenditures and Revenues	General Fund Service Costs	General Fund Program Revenues	General Fund Net Service Costs	# of Units Served	Per Unit Cost	Units Not Served	Cumulative Municipal Service Costs
Transportation (2)	$ 89,259,530	$ 55,716,070	$ 2,352,970	$ 53,363,100	2,239	$ 23,833.45	351	$ 8,356,008
Road Maintenance	$ 18,559,810							
Road and Street Services	$ 62,616,911							
General Administration	$ 8,082,809							
General fund appropriation (I.A2)	$ 253,171,843							
Total receipts	$ 405,592,132							
General fund share	62%							
Police (3)		$ 202,113,605						
Animal Control Field Services		$ 944,201			854,298	$ 1.11	121,141	$ 133,889
Crossing Guards		$ 4,230,452			958,724	$ 4.41	16,715	$ 73,756
Takoma Park Police Services		$ 196,938,952	$ 33,915,917	$ 163,023,035	888,558	$ 183.47	16,715	$ 3,066,690
Patrol Services (57%)				$ 92,923,130		$ 104.58	70,166	$ 7,337,837
General Government (4)								
Board of Appeals (5)		$ 596,995	$ 229,963	$ 367,032	845,378	$ 0.43	130,061	$ 56,468
Libraries		$ 28,292,193	$ 5,032,904	$ 23,259,289	958,724	24.26	16,715	405,517
Human Relations		$ 2,107,950	$ 103,900	$ 2,004,050	914,230	$ 2.19	61,209	$ 134,174
Senior Groceries		$ 556,754		$ 556,754	970,741	$ 0.57	4,698	$ 2,694
Senior Transportation		$ 655,391		$ 655,391	970,741	$ 0.68	125,839	$ 84,960
Zoning Admin Hrgs (5)		$ 491,723	$ 35,080	$ 456,643	845,378	$ 0.54	130,061	$ 70,254
GRAND TOTAL								**$ 19,722,248**

Data Sources: (1) Services include land use hearings and exclude park maintenance; (2) Transportation UFR Local Highway Report; (3) Police Total Expenditiures from UFR; FY11 Actual Police Revenues from Approved FY13 Budget; Animal Control and Crossing Guard Total Costs from OMB MTD Program; (4) Total Costs and revenues for all activities from OMB MTD Program data and OMB Library Property Tax Rebate calculations; (5) The population data reflect expanded rebates for land use hearings.

Property Tax Revenue (UFR)	$1,061,582,080
Total Revenue	$2,659,267,323
Property Tax Share	40%
Cumulative Municipal Costs	$ 19,722,248
Property Tax MTD Payment	**$ 7,888,899**

Table 9-5: Police Service Rate Calculations

Police Service Rate Analysis	City Calls for Service Response	Total Calls	Municipal Service Rate	2011 Municipal Population	County Service Rate	Population Served by County	Population Not Served
Chevy Chase Village	322	2,077	16%	1,953	84%	1,641	312
Gaithersburg	5,601	13,484	42%	59,932	58%	34,761	25,171
Rockville	11,595	15,905	73%	61,209	27%	16,526	44,683
Totals	17,518	31,466		123,094		52,928	70,166

Service Area Adjustments	Served	Not Served
Option A Service Population	123,094	0
Option B Service Area Population	52,928	70,166
Change	(70,166)	70,166

Table 9-6: Full Cost of Service Estimates by Municipality for Option B

Municipality	Transportation Services	Animal Control	Crossing Guards	All Police	Patrol Services	Board of Appeals Hearings	Library Services	Human Relations	Senior Groceries	Senior Trans	Zoning Hearings	Total Payments - Full Cost
	$ 23,833	1.105	$ 4.41	$ 183.47	$ 104.58	$ 0.43	24.26	$ 2.19	$ 0.57	$ 0.68	$ 0.54	
Barnesville	$ -					$ 75					$ 92.91	$ 168
Brookeville	$ 15,968					$ 58					$ 72.38	$ 16,099
Chevy Chase Sec III (1)	$ 53,149											$ 53,149
Chevy Chase Sec V	$ 38,134											$ 38,134
Chevy Chase View	$ 81,034											$ 81,034
Chevy Chase Village	$ 193,528				$ 32,678							$ 226,206
Town of Chevy Chase (1)	$ 236,428					$ 1,226					$ 1,525	$ 239,179
Drummond	$ 9,057											$ 9,057
Friendship Heights (1)	$ 19,543								$ 2,694	$ 3,172		$ 25,410
Gaithersburg	$ 2,096,867	$ 66,239			$ 2,632,366	$ 26,020				$ 40,463	$ 32,373	$ 4,894,329
Garrett Park	$ 95,095											$ 95,095
Glen Echo	$ 40,755											$ 40,755
Kensington (1)	$ 194,719											$ 194,719
Laytonsville	$ 25,502					$ 153					$ 191	$ 25,846
Martin's Addition	$ 52,672											$ 52,672
North Chevy Chase	$ 46,952											$ 46,952
Oakmont	$ 6,435											$ 6,435
Poolesville	$ 413,510					$ 2,120					$ 2,637	$ 418,267
Rockville	$ 3,719,449	$ 67,650			$ 4,672,792	$ 26,575		$ 134,174		$ 41,325	$ 33,063	$ 8,695,027
Somerset	$ 101,054											$ 101,054
Takoma Park (1)	$ 827,736		$ 73,756	$ 3,066,690			405,517					$ 4,373,699
Washington Grove	$ 88,184					$ 241					$ 300	$ 88,725
Totals	$ 8,355,770	$ 133,889	$ 73,756	$ 3,066,690	$ 7,337,837	$ 56,468	405,517	$ 134,174	$ 2,694	$ 84,960	$ 70,254	$ 19,722,009

(1) Payments exclude Park Maintenance for Chevy Chase Sec III ($4,056), Town of Chevy Chase ($9,681), Friendship Heights ($75,997), Kensington ($39,077), Takoma Park ($76,440)

Table 9-7: Property Tax Rebate Payments by Municipality for Option B

	A	B	C	D
Municipality	Proposed Full Cost of Service (from Table 9-6)	Proposed Payment Method (Property Tax Share is 40%)	FY13 Actual Payments without Parks (1)	Effect of Payment Method Change (B-C)
Barnesville	$ 168	$ 67		$ 67
Brookeville	$ 16,099	$ 6,440	$ 6,794	$ (354)
Chevy Chase Sec III	$ 53,149	$ 21,259	$ 28,471	$ (7,212)
Chevy Chase Sec V	$ 38,134	$ 15,253	$ -	$ 15,253
Chevy Chase View	$ 81,034	$ 32,413	$ 41,275	$ (8,862)
Chevy Chase Village	$ 226,206	$ 90,482	$ 100,524	$ (10,042)
Town of Chevy Chase	$ 239,179	$ 95,672	$ 124,887	$ (29,215)
Drummond	$ 9,057	$ 3,623	$ 4,613	$ (990)
Friendship Heights	$ 25,410	$ 10,164	$ 20,131	$ (9,967)
Gaithersburg	$ 4,894,329	$ 1,957,732	$ 1,168,467	$ 789,265
Garrett Park	$ 95,095	$ 38,038	$ 47,593	$ (9,555)
Glen Echo	$ 40,755	$ 16,302	$ 20,762	$ (4,460)
Kensington	$ 194,719	$ 77,888	$ 114,082	$ (36,194)
Laytonsville	$ 25,846	$ 10,338	$ 12,991	$ (2,653)
Martin's Addition	$ 52,672	$ 21,069	$ 26,832	$ (5,763)
North Chevy Chase	$ 46,952	$ 18,781	$ 23,918	$ (5,137)
Oakmont	$ 6,435	$ 2,574	$ 3,278	$ (704)
Poolesville	$ 418,267	$ 167,307	$ 210,634	$ (43,327)
Rockville	$ 8,695,027	$ 3,478,011	$ 2,116,671	$ 1,361,340
Somerset	$ 101,054	$ 40,422	$ 52,560	$ (12,138)
Takoma Park	$ 4,373,699	$ 1,749,480	$ 3,440,730	$ (1,691,250)
Washington Grove	$ 88,725	$ 35,490	$ 44,922	$ (9,432)
Totals	$ 19,722,009	$ 7,888,804	$ 7,610,136	$ 278,668

(1) Payments exclude Park Maintenance for Chevy Chase Sec III ($4,056), Town of Chevy Chase ($9,681), Friendship Heights ($75,997), Kensington ($39,077), Takoma Park ($76,440)

(2) The $1.7 million reduction in the Takoma Park payment does not account for proposed elimination of the Takoma Park Police and Library property tax rebates. In FY13, these rebates totaled $1.1 million; the Police Rebate was $950,000 and the Library Rebate was $151,000. In FY13, these rebates plus Takoma Park's FY13 Actual MTD Payment of $3.44 million totaled $4.54 million. The effect of the proposed payment of $1.7 million results is a reduction of $2.79 million.

Table 9-8: Comparison of Municipal Reimbursable Shared Service Costs, County Income Tax Revenue and MTD Payments

	A	B	C	D	E
Municipality	**Reimbursable Shared Service Costs (100%)**	**Distributed County Income Tax Revenue**	**Difference (B-A)**	**40% Payment**	**Effect of MTD Payment (C+D)**
Barnesville	$ 168	$46,781	$46,613	$ 67	$46,680
Brookeville	$16,099	$111,675	$95,576	$ 6,440	$102,016
Chevy Chase Village, Sec 3	$53,149	$325,420	$272,271	$ 21,259	$293,531
Chevy Chase Village, Sec 5	$38,134	$352,674	$314,540	$ 15,253	$329,794
Chevy Chase View	$81,034	$325,909	$244,875	$ 32,413	$277,289
Chevy Chase Village	$226,206	$1,414,503	$1,188,297	$ 90,482	$1,278,779
Chevy Chase Town	$239,179	$2,174,114	$1,934,935	$ 95,672	$2,030,606
Drummond	$9,057	$52,798	$43,741	$ 3,623	$47,364
Friendship Heights	$25,410	$943,010	$917,600	$ 10,164	$927,764
Gaithersburg	$4,894,329	$8,601,966	$3,707,637	$ 1,957,732	$5,665,369
Garrett Park	$95,095	$242,280	$147,185	$ 38,038	$185,223
Glen Echo	$40,755	$67,925	$27,170	$ 16,302	$43,472
Kensington	$194,719	$464,332	$269,613	$ 77,888	$347,500
Laytonsville	$25,846	$137,728	$111,882	$ 10,338	$122,221
Martin's Additions	$52,672	$353,851	$301,179	$ 21,069	$322,248
North Chevy Chase	$46,952	$145,633	$98,681	$ 18,781	$117,462
Oakmont	$6,435	$45,236	$38,801	$ 2,574	$41,375
Poolesville	$418,267	$1,014,387	$596,120	$ 167,307	$763,427
Rockville	$8,695,027	$11,048,348	$2,353,321	$ 3,478,011	$5,831,332
Somerset	$101,054	$476,071	$375,017	$ 40,422	$415,439
Takoma Park	$4,373,699	$2,330,225	($2,043,474)	$ 1,749,480	($293,994)
Washington Grove	$88,725	$67,660	($21,065)	$ 35,490	$14,425
Total	**$19,722,009**	**$30,742,526**	**$11,020,517**	**$ 7,888,804**	**$18,909,320**

X. Agency Comments

The Office of Legislative Oversight shared a final draft of this report with the Chief Administrative Officer of Montgomery County. OLO appreciates the time County representatives took to review the draft and provide comments. OLO's final report incorporates the technical corrections they provided.

OLO has modified its proposal for Revision X in response to the County's comments. Originally, OLO proposed that the Council provide municipalities with the opportunity to make an annual election for a tax differential or a municipal rebate payment. The modified revision proposes that that the Council offer municipalities a one-time opportunity to choose one of these two payment methods. This responds to the County's comment that an annual election would impose a greater administrative burden with few corresponding benefits.

The written comments received from the Chief Administrative Officer are attached in their entirety, beginning on the following page.

OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

June 7, 2013

Timothy L. Firestine
Chief Administrative Officer

TO: Chris Cihlar, Director, Office of Legislative Oversight

FROM: Timothy L. Firestine, Chief Administrative Officer Timothy L. Firestine

SUBJECT: Final Draft Report: Municipal Tax Duplication and Revenue Sharing in Montgomery County Maryland

I am in receipt of your final draft report dated May 9, 2013, reviewing the Montgomery County Municipal Tax Duplication program. It is a thorough study of not only our program, but also those of other Maryland jurisdictions, the State requirements, and the State shared revenues that affect them. I am generally in agreement with a majority of the recommendations in the report, and hope that all parties can agree to the changes to the program and make the program more effective, fair, and transparent.

Below are specific responses to your recommendations

OLO Recommendation #1

Implement nine revisions to strengthen the fairness, uniformity and sustainability of the County's MTD Program.

OLO Recommendation #1 Revision A:

Revise the MTD payment formula to reimburse on a property tax cost basis instead of a full service cost basis to better align the County's MTD program with State law and the State's shared revenue structure.

<u>CAO Response to OLO Recommendation #1, Revision A</u>

We agree with your finding and recommendation. By basing the payments on a property tax cost basis, we would avoid both the inequity of municipal taxpayers contributing to the cost of a service they do not receive from the County, and the inequity of a non-municipal taxpayer subsidy for municipal services. As Table 5-4 shows, the municipalities generally spend more per capita on shared services than the County does. This may be, in part, a consequence of their receiving both a reimbursement from the County above Property Tax duplication and a share of County income taxes. We agree that this revision would address this potential inequity caused by the State's shared revenue structure.

OLO Recommendation #1 Revision B:

Give municipalities and their taxpayers the option to make an annual election for either a County property tax rate differential or a property tax share municipal rebate payment.

CAO Response to OLO Recommendation #1, Revision B

We agree with your finding, but not fully agree with your recommendation. While we agree with providing the municipalities an option to elect either a County property tax rate differential or a property tax share municipal rebate payment, we do not see why this should be made by the municipality as an annual election. That would result in an additional annual administrative burden on the County without, we believe, any additional effectiveness. We would also note that tax differentials may result in unavoidable inaccuracies compared to rebates. This is because tax rates can only be set to the tenth of a cent; when applied to, in some cases, small assessable bases that may result in a differential that does not match the County property tax funded costs of the services being reimbursed.

OLO Recommendation #1 Revision C:

Fund park maintenance service rebates with revenue From the Metropolitan District, or redraw the Metropolitan District boundaries to eliminate the need for park maintenance reimbursement payments within the MTD program.

CAO Response to OLO Recommendation #1, Revision C

We agree with your finding and recommendation. We further recommend that this matter be administered by the Maryland-National Capital Park and Planning commission.

OLO Recommendation #1 Revision D:

Transfer the Takoma Park Library rebate, currently authorized as a separate payment in County law, into the MTD Program.

CAO Response to OLO Recommendation #1, Revision D

We agree with your finding and recommendation. This consolidation would contribute to the transparency of the program and reduce the administrative overhead.

OLO Recommendation #1 Revision E:

Include land use administrative hearings as Reimbursable services under the MTD program for all municipalities in the County that provide these services.

CAO Response to OLO Recommendation #1, Revision E

We agree with your finding and recommendation, as it addresses what is currently an inequity.

OLO Recommendation #1 Revision F:

Revise current cost of service formulas with a methodology that uses available activity and/or relevant program data to develop unit cost factors for crossing guards, human relations and library services.

CAO Response to OLO Recommendation #1, Revision F

We agree with your finding and recommendation. By using data readily available to the public and simplifying some calculations the program can be made more transparent and administrative overhead reduced.

OLO Recommendation #1 Revision G:

Revise the methodology for transportation services reimbursement to determine the County's net costs per mile using data from the Local Highway Finance Report filed annually with the State.

CAO Response to OLO Recommendation #1, Revision G

We agree with your finding and recommendation, for the reasons stated above for Revision F.

OLO Recommendation #1 Revision H:

Provide a single reimbursement payment for Takoma Park police services through the MTD program by eliminating the stand-alone payment authorized in the County Code. Revise the current repayment methodology to utilize a unit cost formula.

CAO Response to OLO Recommendation #1, Revision H

We agree with your finding and recommendation, for the reasons stated above for Revisions D and F.

OLO Recommendation #1 Revision I:

Incorporate the use of service rate factors as part of the County's MTD program, and re-institute reimbursement for police patrol services in Chevy Chase Village, Gaithersburg and Rockville under the partial service rate model.

CAO Response to OLO Recommendation #1, Revision I

We agree with your finding and recommendation. We note the qualification in your recommendation that they be reimbursed "...in exchange for municipal commitments that their patrols serve as primary responders on calls dispatched by the County inside municipal boundaries." I have proposed this to the municipalities before, and the proposal was not accepted.

OLO Recommendation #2

Establish and fund a Municipal Grant Program to fund non-recurring expenses or other initiatives. Structure the program to cap annual funding at an amount equal to the annual appropriation for the MTD program and require a municipal matching contribution.

CAO Response to OLO Recommendation #2

We do not fully agree with this recommendation. There is a potential for service disruption for municipal residents if a sudden revision to property tax only payments is made (which would reduce payments from $7.8 million to $4.8 million), and we would agree that should be avoided.

As proposed, however, the grant program does not address that potential. Focusing on shared service initiatives and evaluating proposals on a case-by-case basis, as we frequently do in the successful Community Grants program, is a sound approach. It does not address, however, the potential impact on municipal-provided services to the municipal residents if the County payment for those services is suddenly reduced by three million dollars.

I would rather see the County Code changed to reflect the intent to, over time, base the program on a pure property tax reimbursement formula. As always, we would have the authority to appropriate funds at any level above what the Code would call for and within affordability; and this approach would make clear the intent to provide the municipalities time to make adjustments.

Thank you for the opportunity to respond to this draft and for your thorough study of our program, those of other Maryland jurisdictions, the State requirements, and the State shared revenues that affect them. If you have any questions, please feel free to contact me or Assistant Chief Administrative Officer Fariba Kassiri at 240-777-2512 or Fariba.Kassiri@montgomerycountymd.gov.

TLF:bm

cc: Fariba Kassiri, Assistant Chief Administrative Officer
Kathleen Boucher, Assistant Chief Administrative Officer
Jennifer Hughes, Director, Office of Management and Budget
Parker Hamilton, Director, Department of Public Libraries
Arthur Holmes, Director, Department of Transportation
Joseph Beach, Director, Department of Finance
Marc Hansen, County Attorney, Office of the County Attorney
Chief Thomas Manger, Montgomery County Police Department
Michael Coveyou, Department of Finance
Scott Foncannon, Office of the County Attorney
Captain Terrence Pierce, Montgomery County Police Department
Bruce Meier, Office of Management and Budget

MUNICIPAL TAX DUPLICATION AND REVENUE SHARING IN MONTGOMERY COUNTY MD

APPENDIX

OFFICE OF LEGISLATIVE OVERSIGHT
REPORT NUMBER 2013-6

JUNE 18, 2013

Sue Richards
Carl Scruggs

LIST OF APPENDICES

LIST OF APPENDICES (continued)

Terms and Definitions

County only services – A term used by the Institute for Governmental Services to refer to those services provided only by counties as a result of specific mandates and authorities in State law. Municipalities are not authorized to provide county only services. Examples include K-12 education, the election board and the sheriff. See an excerpt from OLO Report 2008-5 attached to this appendix for more details.

Municipal Governments – Cities, towns or villages in Maryland that may operate under home rule authority. Some villages in Maryland are special taxing units instead of incorporated municipalities. This study's references to municipalities includes these special taxing districts. See information from the Census of Governments about Maryland attached to this appendix for more details.

Non-reimbursable services – A term used by OLO to identify those shared services that are not designated for reimbursement through a municipal tax duplication program. They may include services that are unique to a political jurisdiction or services that exist because the government itself exists. They are also referred to as sole provider services.

Parallel expenditures – The existence of county and municipal expenditures for the same functional classification or service activity that results from a side by side comparison of county and municipal financial reports.

Reimbursable services – Activities in the shared services categories where concurrent county and municipal spending provides an equivalent service. A county designates these activities as eligible for reimbursement through its municipal tax duplication program.

Service Category Definitions – Groups of functional services activities established by the State Department of Legislative Services to report financial data for the State's local government units. See an exhibit from OLO Report 2008-5 attached to this appendix for more details.

Service rate factor – A ratio that represents the service level of effort of a municipality compared to that of a county. The basis for the service rate is a program or activity metric such as hours of coverage or positions.

Shared provider system – A term used by OLO to describe the service delivery network for reimbursable services. The providers consist of a county government and one or more of its municipalities. If a municipal tax duplication program's cost of service formulas are based on unit costs, this creates a shared provider system with a uniform cost structure.

Shared services – Services that both counties and municipalities have the authority to provide. Examples of shared services include water and sewer services, street and highway maintenance and construction, police and fire protection, parks and recreation services, planning and zoning and solid waste removal. The Institute for Governmental Services refers to shared services that show both county and municipal expenditures as parallel services.

Special area tax districts – A term used by the Institute for Governmental Services and the Maryland Municipal League to refer to bi-county or county property tax districts that fund certain discretionary shared services. Some boundaries of Montgomery County's special area tax districts cover the entire County, e.g., the mass transit district; some are state-established bi-county districts with boundaries that exclude certain municipalities, e.g. the Metropolitan District.

The examples below illustrate the different ways State law delegates power or authority to counties and municipalities.

State Mandates Reserved for Counties. Several provisions of State law that establish state-wide services do so by assigning specific duties and responsibilities to each of the counties.

- **Education**. The State requires each county to levy taxes and provide other revenues to fund the education budget for grades K-12. Md. Code Ann., Education § 5-102. Similarly, the State requires counties to fiscally support community colleges. Ibid. § 16-301.

- **County Board of Health**. State law establishes the governing body of each county as the County Board of Health unless the County establishes a separate board of health, and requires each board of health "to exercise the duties imposed by law on the board of health." Md. Code Ann., Health-General § 3-202(a)(1). The law further requires the county board of health to exercise the same duties in each municipality or special taxing district unless those entities have a charter provision or ordinance that covers the same subject matter, is at least as restrictive as the requirement the county must enforce, or includes provisions for enforcement. Ibid. § 3-202(a)(2).

- **State's Attorney**: Article V, § 7 of the Maryland Constitution requires the election of a State's Attorney in each county. The Maryland Code requires each county to pay the salaries and expenses of its State's Attorney. Md. Ann. Code art. 10, § 40(a).

- **Sheriffs**: Article IV, § 44 of the Maryland Constitution requires the election of a Sheriff in each County. The Maryland Code requires each county to pay the salaries and expenses of its Sheriff. Md. Code Ann., Courts and Judicial Proceedings § 2-309(a).

- **County Board of Elections**: State law establishes a County Board of Elections in each county. Md. Code Ann., Election Law § 2-201(a)(1). Each county must appropriate funds that allow the Board of Elections "to exercise the powers and perform the duties prescribed for it by law . . . ." Md. Code Ann., Election Law § 2-203.

- **10-Year Water, Sewer, and Solid Waste Disposal Plans**: Each county must develop a 10-year plan that addresses water supply, sewer systems, solid waste disposal, and solid waste disposal facilities, including the expansion of these systems. Md. Code Ann., Environment §§ 9-503(a), 9-505(a). A 10-year plan must incorporate subsidiary plans of towns and municipal corporations "to the extent that the incorporation will promote the public health, safety, and welfare . . . ." Ibid. § 9-504(a).

- **Liquor Control**: State law establishes a Department of Liquor Control in Montgomery County that has the power to regulate the purchase and sale of wine and other alcoholic beverages in the County. Md. Ann. Code art. 2B, §§ 15-201(a), 15-205(b)-(d).

- **Certain Court Personnel**: The County Council must compensate court reports who take or transcribe grand jury testimony in Montgomery County. Md. Code Ann., Courts and Judicial Proceedings § 2-501(b)(2)(ii).

State-Delegated Authority Shared by Counties and Municipalities. Other provisions of State law delegates authority for providing certain services to either counties or municipalities.

- **Planning and Zoning Powers**: State law grants local legislative bodies the authority to implement "planning and zoning controls" and to regulate and restrict the use of land. Md. Ann. Code art. 66B, § 4.01(a)(1)(ii), (b)(1). However in Montgomery County, neither M-NCPPC, the Montgomery County Planning Board, nor the District Council has planning or zoning power or jurisdiction in municipal corporations that existed as of June 1, 1957, unless a municipality enters into an agreement allowing M-NCPPC or the Planning Board power and jurisdiction over planning and zoning in the municipality. Md. Code Ann. Art. 28, § 7-105(b), (f). In general, municipalities that incorporated after June 1, 1957 do not have planning or zoning powers. Ibid. § 2-105(b).

- **Affordable Housing Programs**: State law grants counties and municipalities authority to establish affordable housing programs, including the authority to enact laws to facilitate such programs. Md. Ann. Code art. 24, § 21-101.

Service Category Definitions and Required Activities. Exhibit 2-1 (page 10) displays the service categories and activity descriptions published in the Legislative Handbook Series. The Department of Legislative Services uses these categories to report financial data for the State's local government units. Those items marked with an asterisk are those that are required or governed under State law.

EXHIBIT 2-1. SERVICE CATEGORIES USED TO CLASSIFY LOCAL GOVERNMENT EXPENDITURES

Service Category	Description of Activities
General Government	This grouping includes executive and legislative control, election supervision*, financial administration (budgeting and accounting), legal support, and personnel administration.
Judicial Support*	Functions include the State's Attorney and judicial activities of the Sheriff. This category also includes funding for the operations of the Circuit Courts.
Public Safety	This grouping includes law enforcement, fire protection, corrections, building inspection, animal control, and traffic engineering.
Transportation	Baltimore City maintains all roads except certain interstate highways. The counties are responsible for maintenance and upkeep of local roads.
Education*	Funding of the public schools (K-12) through the county boards of education.
Community Colleges*	The schools that operate under State law are funded with a combination of State and local funds.
Libraries	Although not required to do so by State law, all counties, including Baltimore City, have established a public library system, usually governed by a library board.
Health*	Counties operate the State-required and regulated county health department and State-authorized core service agencies (which coordinate services for the mentally ill).
Public Works	Zoning, alcoholic beverage control*, planning, sewer, water, storm drain, and solid waste collection and disposal are generally the responsibility of the counties.
Economic and Community Development	Counties engage in varying levels of economic and community development.
Human Services	While the county role in delivering social services varies by jurisdiction, most counties administer area agencies on aging. These agencies coordinate the delivery of State and local services to older Maryland residents.

Source: Legislative Handbook Series, Volume II, Chapter 1, p. 5.

C. Municipal Authority in Maryland Before and After 1954

Municipalities in Maryland date back to the incorporation of Annapolis in 1637. Although municipalities have existed for centuries, their powers and authority changed significantly in 1954 when voters ratified the Municipal Home Rule Amendment.

Municipal Authority Before 1954. Prior to the ratification of the Municipal Home Rule Amendment, the State was responsible for all aspects related to the governance of

Maryland

Maryland ranks 46th among the states in number of local governments, with 265 as of June 2002.

COUNTY GOVERNMENTS (23)

The entire state is encompassed by county government with the exception of the area of the city of Baltimore. Baltimore is an independent city outside the area of any county and is counted as a municipal rather than a county government. Baltimore County is a county government but excludes the area of Baltimore City. Anne Arundel, Baltimore, Charles, Frederick, Harford, Howard, Montgomery, Prince George's, Talbot, and Wicomico counties operate under home-rule charters. These counties are governed by county councils.

In counties without home-rule charters, the county governing body is known as the board of county commissioners. In addition, Allegany, Caroline, Kent, Queen Anne's, and Worcester counties operate under a special code option, but their governing bodies are still designated as boards of county commissioners.

SUBCOUNTY GENERAL PURPOSE GOVERNMENTS (157)

Municipal Governments (157)

The municipal governments in Maryland are the cities, towns, and villages. There are no significant differences between city and town governments that would affect their classification for census statistics. All municipal governments in Maryland except the city of Baltimore are treated as a single class in state legislation. Incorporation as a municipality requires a minimum population of 300. Municipalities may operate under home-rule.

Some "villages" in Montgomery County have been formed as special taxing units rather than incorporated as municipal governments. These are counted as special district governments rather than as municipal governments for census purposes. See "Special District Governments," below.

Township Governments (0)

Maryland has no township governments.

PUBLIC SCHOOL SYSTEMS (39)

School District Governments (0)

Maryland has no independent school district governments.

Dependent Public School Systems (39)

In Maryland, the local public school systems are not counted as separate governments. Maryland statutes provide for the following types of dependent public school systems:

Systems dependent on county governments:
- County boards of education
- County and regional community colleges

System dependent on municipal governments:
- Baltimore City schools

County schools are administered by a county board of education, which is either appointed by the Governor or elected except in Prince George's County where the board is jointly appointed by the Governor and the county executive from a list submitted by the state board of education. County school fiscal requirements are determined and provided for by the county governing body. The county school systems are classified for census purposes as dependent agencies of the county government.

The Baltimore City schools are governed by a board of commissioners jointly appointed by the Governor and the mayor. Fiscal requirements are subject to review and are provided for by the city of Baltimore. The Baltimore City School System is not counted as a separate government but is classified as a dependent agency of the city of Baltimore.

Most community colleges in Maryland are classified for census reporting as dependent on the county governments they serve. Community colleges are governed by a board of trustees appointed, in most cases, by the Governor with the consent of the senate. Fiscal requirements of the colleges are determined and provided for by the sponsoring county governments. In the case of regional community colleges, which serve two or more counties, each participating county provides its share of the fiscal requirements of the college in proportion to enrollment and county population. The Baltimore City Community College is classified as a state dependent agency.

Other Educational Activities

County boards of education may enter into agreements with other county boards of education, other educational institutions or agencies, or the county boards of commissioners or county councils to provide joint services. If a separate administrative entity is created, the agreement

Source: U.S. Census, 2002 Census of Government specifies the nature of the board and the funding arrangements. The Regional Education Service Agency of Appalachian Maryland was created as a joint agreement.

SPECIAL DISTRICT GOVERNMENTS (85)

Maryland statutes authorize the creation of a variety of special districts or authorities that are counted as governments. These are discussed in detail below.

Cooperative Library Corporations

These entities may be formed as nonstock corporations by two or more boards of library trustees. They are governed as specified in their articles of incorporation. They may collect user fees and receive state and local funding. The Eastern Shore Regional Library was formed under this law.

Drainage Districts and Ditches[1]

Maryland statutes authorize the following types of independent districts to provide for drainage of agricultural lands:

Drainage or levee districts. Drainage or levee districts may be established by the board of county commissioners on petition of landowners. A board of drainage commissioners is appointed by the county commissioners. The board may issue bonds and levy special benefit assessments. As of June 2002, no drainage districts appear to have been established under this law.

Storm drainage districts. These districts may be established by local law in charter and code home-rule counties. Financial provisions governing storm drainage districts vary according to terms of the local legislation.

Tax ditches (drainage). Legislation authorizing these districts was repealed in 1941, but tax ditches then in operation are permitted to continue. Drainage ditches were established by the boards of county commissioners on petition of landowners and after a public hearing. Elected boards of managers govern the ditches. Tax ditches may levy special benefit taxes.

Housing Authorities

Housing authorities may be established in counties or in cities upon resolution of the governing body. They are governed by boards of commissioners appointed by the county governing body or the mayor. The authorities may issue bonds and fix and collect rentals.

Housing authorities governed by the county governing body or subject to county fiscal controls are not counted as separate governments. See "Subordinate Agencies and Areas," below.

[1]Public drainage associations, previously classified as special districts, were reclassified as county dependents for the 2002 Census of Governments.

Metropolitan Washington Airports Authority

This authority is counted under "Virginia—Special District Governments."

Northeast Maryland Waste Disposal Authority

This authority was created by special act to provide resource recovery facilities. The authority board consists of one member representing each member county and Baltimore City appointed by the Governor from lists approved by the chief executive officers. The director of the Maryland Environmental Service also serves on the board. The authority may fix and collect fees and rentals and issue revenue bonds.

Potomac Highlands Airport Authority

This authority is counted under "West Virginia—Special District Governments."

Public Watershed Associations

These associations provide water conservation, drainage, flood control, and soil conservation. The county governing body or the mayor and city council of Baltimore City may establish these associations upon petition of landowners and after public hearing. An elected board of directors governs each association. The board may issue bonds and may levy assessments on benefited land.

Sanitary (or "Metropolitan") Commissions

Sanitary districts provide water supply, sewerage, and solid waste disposal facilities. These districts are established by ordinance or resolution of the county governing body of each county served. A commission, appointed by the county governing body, governs the districts in that county. The commissions may issue bonds, levy taxes, and impose charges for services.

LaVale Sanitary Commission, created by special act, also is counted as an independent government. The board is appointed by the county commissioners. The board may fix and collect fees, issue bonds, and set property taxes.

The Washington Suburban Sanitary Commission, created by special act, is subject to budget oversight by Montgomery and Prince George's counties. The St. Mary's County Metropolitan Commission, also created by special act, is subject to bond approval by the county. These commissions are classified as subordinate agencies.

Commissions of this type that are governed by the county governing body are not counted as separate governments. See "Subordinate Agencies and Areas," below.

Soil Conservation Districts

These districts are created by the state soil conservation committee on petition of the land occupiers after a public hearing and local referendum. A board of supervisors, with four members appointed by the state soil conservation committee and one by the county governing body, governs each district. The districts may require contributions from landowners for services performed and establish and implement a fee system.

Special Tax Districts[2]

The following special tax districts are counted as special districts. The services they provide are specified in the creating legislation and may include services such as streets, lighting, parking, water supply, sanitation, drainage, recreational facilities, police, or fire.

In Allegany County:

The Bel Air Special Taxing Area, Bowling Green and Robert's Place Special Taxing Area, Crespatown Special Taxing District, Ellerslie Special Taxing Area, McCoole Special Taxing District, Mount Savage Special Tax Area, and Potomac Park Addition Taxing District are counted as special districts. These districts were created by state law and local referendum prior to the passage of home-rule in Allegany County. The county does not have the power to modify or abolish these districts. The governing bodies are elected. The county levies a property tax on behalf of the districts. The Crespatown Special Taxing District may issue bonds.

The Corriganville Special Taxing District also is counted as an independent government. The Corriganville Light and Improvement Association, popularly elected, governs the district. The association may fix and collect fees and sets the tax rate to be levied by the county.

In Montgomery County:

The Friendship Heights and "The Hills" Special Tax District, Oakmont Special Tax District, and Village of Drummond Special Taxing Area are counted as special districts. These districts were created by state law prior to the passage of home-rule in Montgomery County. The county does not have the power to modify or abolish these districts. The governing boards are elected. The statutes set a minimum tax for the county to levy on behalf of each district. The governing boards may levy special assessments with the approval of the county. The latter two may issue bonds.

Five former special taxing districts of this nature that were created by the general assembly have become municipal corporations.

For special tax districts in these counties and other counties that are not counted as governments, see "Subordinate Agencies and Areas," below.

[2]The special community benefit districts in Anne Arundel County, previously classified as special districts, were reclassified as county dependent taxing areas for the 2002 Census of Governments.

Upper Potomac River Commission

This commission was established by special act to reduce pollution in the Potomac River by providing facilities for treatment and disposal of sewage and industrial wastes. The commission consists of three members: a chair appointed by the Governor and one member appointed by each of the commissioners of Allegany and Garrett counties. The commission may issue revenue bonds and fix and collect fees.

Washington County Free Library

This library was formed under a special act to provide library services to the residents of Washington County. It is governed by a board of nine trustees. The library may obtain revenue through donations, sales, investments, and state and local appropriations.

Washington Metropolitan Area Transit Authority

This authority is counted under "District of Columbia—Special District Governments."

Water and Sewer Authorities

These authorities may be created by one or more political subdivisions (county, municipality, sanitary district, or other political subdivision) except in Montgomery and Prince George's counties. These authorities are governed by boards appointed by the creating governments. The authorities may fix and collect fees and issue bonds.

Water and sewer authorities with ex officio boards are not counted as independent governments. See "Subordinate Agencies and Areas," below.

SUBORDINATE AGENCIES AND AREAS

Shown below are various governmental designations in Maryland that have certain characteristics of governmental units but that are classified in census statistics as subordinate agencies of the state or local governments and are not counted as separate governments. Legal provisions for some of the larger of these are discussed below (see "Public School Systems," above, regarding educational agencies of this nature).

Some subordinate agencies and areas represent "special taxing areas" within the territory of an established government other than those listed under "Special Tax Districts," above. This method of financing additional services in limited areas by property taxation, while also used by some municipal and township governments in a few states, is more widely utilized by county governments. In the listing below of authorized county-related agencies, a bullet (*) appears for each entity of this kind—i.e., any that may individually serve a portion rather than all of a county and for which a tax may be levied against the assessed value of property in the area served.

Maryland Health and Higher Educational Facilities Authority (state). An act of the state legislature created this authority to finance the construction of buildings for hospitals and institutions of higher education. The authority is governed by a board of nine members including eight members appointed by the Governor, plus the state treasurer ex officio. The authority may fix and collect fees and rents; make loans to participating hospitals or institutions of higher education; and issue revenue bonds.

Maryland-National Capital Park and Planning Commission (joint county). This commission provides park and recreational facilities plus planning services in Montgomery and Prince George's counties. It was created by special act. The governing body consists of ten members, five appointed by the Montgomery County council with the consent of the county executive and five appointed by the Prince George's County executive with the consent of the county council. Revenue needs are met by county tax levies. In addition, the commission may issue bonds, which may be guaranteed by the county in which the facilities to be financed are located. Since 1972, Montgomery and Prince George's counties have had the power to modify the commission budget. The commission also acts as governing body for the Maryland-Washington Metropolitan District and the Maryland Washington Regional District. These two districts are not counted as separate governments.

Maryland Transportation Authority (state). This authority was created by 1970 legislation to finance, operate, and maintain all state toll highways, bridges, and tunnels and finance other transportation-related facilities by revenue bonds. Authority members are the secretary of the department of transportation plus six members appointed by the Governor with the consent of the senate. The authority may impose rates and charges for its facilities and issue revenue bonds.

Other examples include:

State

Auxiliary and Academic Facilities Bond Authority
Canal Place Preservation and Development Authority
Chesapeake Bay Trust
Forest conservancy districts
Historic St. Mary's City Commission
Maryland Affordable Housing Trust
Maryland Agricultural Land Preservation Foundation
Maryland Deposit Insurance Fund Corporation
Maryland Economic Development Corporation
Maryland Environmental Service
Maryland Food Center Authority
Maryland Health Care Foundation
Maryland Heritage Areas Authority
Maryland Higher Education Supplemental Loan Authority
Maryland Historical Trust
Maryland Industrial Development Financing Authority
Maryland Port Commission (including Maryland Port Administration)
Maryland-Potomac Water Authority (joint state-county)
Maryland Small Business Development Financing Authority
Maryland Stadium Authority
Maryland Venture Capital Trust
Seafood Marketing Authority
Southern Maryland Higher Education Center
State Tobacco Authority

County

Allegany County Transit Authority
Anne Arundel County Recreational Facilities Revenue Authority
Baltimore County Metropolitan District
Baltimore County Revenue Authority
Baltimore County revitalization districts
Battery Park tax area (Montgomery County)
Bedford Road Fire Taxing Area (Allegany County)
Bowling Green Fire Taxing Area (Allegany County)
Calvert County Economic Development Authority
Commercial district management authorities
County library boards
Crofton Special Community Benefit District (Anne Arundel County)
Crystal Beach Manor Special Taxing District (Cecil County)
Electric lighting districts
▪Erosion districts
Garrett County Memorial Hospital
Historic districts
Housing authorities governed by county governing body or under county fiscal control
Howard County Economic Development Authority
▪Howard County fire districts
Howard County Mental Health Authority
Industrial development authorities (county)
▪LaVale Fire Taxing Area (Allegany County)
▪LaVale Rescue Taxing Area (Allegany County)
Local economic development agencies
Maryland-Potomac Water Authority (joint state-county)
Montgomery County Fire Tax District
Montgomery County Recreation District
Montgomery County Revenue Authority
Montgomery County Suburban District
Noise abatement districts in Montgomery County
Octoraro Lakes Special Taxing District (Cecil County)
Parking authorities (Montgomery and Prince George's counties)
▪Parking lot districts in Montgomery County
Prince George's County Redevelopment Authority
Prince George's County Revenue Authority
Prince George's County special improvement districts
Public drainage associations
St. Mary's County Building Authority Commission
St. Mary's County Metropolitan Commission

- St. Mary's County Special Tax District (fire)
- Sanitary (or "metropolitan") districts governed by county governing body
- Shore erosion control districts
- Special community benefit districts in Anne Arundel County
- Special taxing areas for public transportation in Anne Arundel, Carroll, Calvert, Frederick, Garrett, Howard, and Montgomery counties
- Special taxing districts in Anne Arundel, Calvert, Charles, Garrett, Howard, Prince George's, Washington, and Wicomico counties
- Special taxing districts in home-rule counties
- Tax increment financing districts
- Urban district corporations (Montgomery County)
- Urban districts (Montgomery County)
- Washington County Museum of Fine Arts
- Washington Suburban Sanitary Commission
- Washington Suburban Transit District
- Water and/or sewer authorities with ex officio boards
- Waterways improvement districts
- Wicomico Urban Services Commission
- Worcester County Citizens Nursing Home Board

Municipal

- Baltimore City Downtown Commercial District Management Authority
- Baltimore City Child First Special Authority
- Baltimore City community benefits districts
- Baltimore Civic Center Authority
- Baltimore Community Development Finance Corporation
- Drainage districts in Takoma Park
- Enoch Pratt Free Library (Baltimore)
- Historic districts
- Industrial development authorities (municipal)
- Lexington Market Authority (Baltimore)
- Parking authorities (Baltimore City)
- Special taxing districts created by municipalities in home-rule counties
- Tax increment financing districts (except Baltimore City)
- Urban renewal agencies (special acts)
- Urban renewal authorities for slum clearance
- Water and/or sewer authorities with ex officio boards
- Waterways improvement districts

Maryland laws also provide for various types of local areas for election purposes and administration of justice.

EXHIBIT 2-2. SUMMARY CHART OF MOST PREVALENT POWERS AUTHORIZED IN THE CHARTERS OF MONTGOMERY COUNTY MUNICIPALITIES AND SPECIAL TAXING DISTRICTS

Municipality or Special Taxing District	Animal Control	Advertising	Amusements	Billboards/Signs	Building Code/ Enforcement	Community Services	Cooperative Activities	Curfew	Establish Departments	Explosives and Combustibles
Barnesville	x	x	x	x	x	x	x	x		x
Brookeville		x	x	x	x		x		x	
Chevy Chase, Town of	x	x	x	x	x	x	x	x	x	x
Chevy Chase View										
Chevy Chase Village					y					
Friendship Heights					y					
Gaithersburg	x	x	x	x	x	x	x	x	x	x
Garrett Park	x	x	x	x	x	x	x	x	x	x
Glen Echo	x	x	x	x	x	x	x	x	x	x
Kensington	x	x	x	x	x	x	x		x	
Laytonsville										
Martin's Additions										
North Chevy Chase					y		x			
Oakmont										
Poolesville	x	x	x	x	x	x	x	x	x	x
Rockville	x	x	x	x	x	x	x	x	x	x
Somerset	x	x	x	x	x	x	x	x	x	x
Takoma Park	x	x		x	x	x	x		x	
Village of Chevy Chase, Section 3					x					
Village of Chevy Chase, Section 5										
Village of Drummond					x					
Washington Grove	x	x	x	x	x	x	x	x	x	x
Total	11	12	11	12	17	11	13	9	11	9

Source: Municipal and Special Taxing District Charters

EXHIBIT 2-2. SUMMARY CHART OF MOST PREVALENT POWERS AUTHORIZED IN THE CHARTERS OF MUNICIPALITIES AND SPECIAL TAXING DISTRICTS (CONTINUED)

Municipality	Franchises (Water, Gas, Etc.)	Fire	Grants-in-aid	Health	Parking Control	Parks and Recreation	Police	Acquire Property	Waste Collection	Streets and Sidewalks	Sewer and Water/ Stormwater	Total
Barnesville	x	x	x	x			x	x	x			16
Brookeville	x			x	x	x	x	x	x	x		14
Chevy Chase Town	x		x	x	x	x	x	x	x	x		19
Chevy Chase View									y	y		2
Chevy Chase Village		y			y		x		y	y	y	7
Friendship Heights		y		y		y	y		y	x	y	8
Gaithersburg	x	x	x	x	x	x	x	x	x	x	x	21
Garrett Park	x	x	x	x	x	x	x	x	x	x	x	21
Glen Echo			x	x		x	x	x	x	x	x	18
Kensington	x		x	x	x	x	x	x	x	x	x	18.
Laytonsville										x		1
Martin's Additions												0
North Chevy Chase		y			y		y		y	y	y	8
Oakmont					x				x	x		3
Poolesville	x	x	x	x	x	x	x	x	x	x	x	21
Rockville	x	x	x	x	x	x	x	x	x	x	x	21
Somerset	x	x	x	x	x	x	x	x	x	x	x	21
Takoma Park	x		x	x	x	x	x	x	x	x	x	17
Village of Chevy Chase, Section 3		x				x	x		x	x	x	7
Village of Chevy Chase, Section 5												0
Village of Drummond										x		2
Washington Grove	x	x	x	x	x	x	x	x	x	x		10
Total	11	11	11	13	13	13	16	12	18	19	12	NA

Source: Municipal and Special Taxing District Charters

Maryland Municpal League Survey of Municpal Services 2010

Municipality Name	Services	Anim. Control		Bus System	Cable System	Comm. Code Enf.	Res. Code Enf.	Comm. Alert System	Senior Cntr.	Swim Pool	Water System	Info. Hotline	Dog Park	Econ. Dev. Staff	Fire Prot. Pd.	Vol. Fire Dept.	Golf Course	Grants Writ. Staff	Gym.Public	Hist. Dist. Staff	Human Res. Comm.	Ice Rink	Mun. Website	Elec. Newsletter	Paper Newsletter	Online Bill Pmt.	Online Licensing	Online Permiting	Online Rec. Sign up	P&R staff	P&Z Staff	Police Prot.	WiFi area	Parking Fac.	Parking Meters	Public Works Dept.	Curbside Recycling	Elec. Recycling	Leaf Recycling	Rental Hs. Licensing	Roadside Tree Prgm.	Sediment Control Prgm.	Skate-board Pk.	Snow Removal.	Social Serv. Prgm.	SW Collection System	SW Mgmt. Pgrm.	Streetlights	Street Main.	Tourism Staff	Trash Collection	Waste Water Treatmt Plant
Barnesville	6																						1	1	1												1											1			1	
Brookville	13					1	1																1	1	1						1			1			1				1			1				1	1		1	
Chevy Chase	13						1					1											1		1						1	1					1	1	1		1			1					1		1	
Chevy Chase, Section 3	6																						1		1														1									1	1		1	
Chevy Chase, Section 5	7																																				1		1		1			1				1	1		1	
Chevy Chase View	13						1																1		1			1									1	1	1		1	1		1				1	1		1	
Chevy Chase Village	15						1																1	1	1	1		1			1	1				1	1		1		1			1					1		1	
Friendship Heights *	14				1				1	1													1	1	1			1	1												1			1	1			1	1		1	
Gaithersburg	33	1			1	1	1	1	1	1		1	1	1			1	1	1	1			1	1	1				1	1	1	1		1		1	1		1	1		1	1	1	1		1	1	1		1	
Gaithersburg																																																				
Garrett Park	11																						1											1		1	1		1		1			1		1		1	1		1	
Glen Echo	10							1	1															1	1												1		1					1				1	1		1	
Kensington	16					1	1	1															1	1	1									1		1	1		1		1			1		1		1	1		1	
Laytonsville	12						1													1			1								1						1	1	1		1			1				1	1		1	
Martin's Addition*	17				1		1	1															1	1	1			1			1					1	1		1		1			1			1	1	1		1	
North Chevy Chase	9																						1		1			1									1		1		1							1	1		1	
Oakmont*	0																																																			
Poolsville	16					1	1				1			1									1		1	1											1	1					1	1		1		1	1	1		1
Rockville	38	1	1		1	1	1	1	1	1	1	1	1	1			1		1	1			1	1	1	1			1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1		1	
Rockville																																																				
Rockville																																																				
Rockville																																																				
Somerset	15						1	1		1													1	1	1							1					1		1		1	1		1				1	1		1	
Takoma Park	30						1	1	1					1					1				1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1		1		1	1	1	1		1	
Washington Grove	10								1														1		1												1		1		1			1				1	1		1	
Total/Services/Town		2	1	0	4	5	12	7	6	4	2	3	2	4	0	0	2	1	3	3	0	0	18	11	17	4	1	6	4	3	8	6	2	5	2	7	18	6	#	3	#	5	3	#	3	5	3	18	19	1	19	1

Understanding the Role of the Village Managers and the Chevy Chase Towns and Villages Municipalities Diverse Responsibilities

As you embark upon your study of the "numbers" –income and expenses for each of the municipalities, it's important that you understand that these communities have chosen to be municipalities because the main advantage is a more hands-on, immediate relationship with a governing body. Rockville, Gaithersburg and Takoma Park are the "big boys" of Montgomery County's municipalities. Their budgets, their responsibilities, are all much more elaborate and complex than many of the smaller communities in the County, and the level of services provided is different as well.

The communities to which I refer in this paper include: the Town of Chevy Chase, Chevy Chase Section 3, Chevy Chase Section 5, Chevy Chase View, Chevy Chase Village, Friendship Heights, Garrett Park, Kensington, Martin's Additions, North Chevy Chase and Somerset. We appreciate and enjoy a good working relationship with the County and its agencies, but it is important for you to understand the way we work as distinct from the way the County operates.

Depending on the size of the community, our Village Managers serve as a combination administrator/manager, bookkeeper, long-range planner, contract specialist, "mom", advisor/concierge, social worker and dispute resolution specialist and communications specialist, snow removal specialists, community booster, party and event planner, liaison with utilities services, emergency services contact, landscape specialist, road repair and construction specialist, protector of the community from encroachment by various utility services, unwanted solicitors and west nile virus, crime alert vehicle, and of course, lost and found. We provide a level of responsiveness that a large county government could not begin to provide. And we work hand in hand with County agencies and personnel when it's appropriate.

We are, in short, the connective tissue for each of our communities. We are far more than a glorified homeowners association. We are living breathing municipalities providing many services to our residents NOT provided by the County.

Clearly, the services we provide are different, by definition. So looking at the dollar amounts for each municipality requires a more sensitive qualitative treatment than just adding up the numbers and doing a dollar for dollar comparison.

Just as the County runs an impressive series of **recreation centers and programs**, so do we in our own communities. Much of our "community promotion" budgets (as listed in the state audit reports) are earmarked for that purpose. We all have newsletters, list serves and websites to communicate with our residents --some have more elaborate emergency communication vehicles. Some of us have town halls or offices where residents can come for information, assistance and activities, others improvise with the spaces available to them. Clearly, our residents use County recreational facilities as well, but there is a locus of activities which takes place right in our own back yards which brings us together as a

Source: Chevy Chase Towns and Villages

community, as neighbors, in a way that an open-to-the-public facility cannot and does not accomplish. So the cost of our parks is often not as simple as landscape services or maintenance activities like mowing the grass and mulching the gardens---it's extensive recreational activities centered around our parks and open spaces. Our town halls are often the equivalent of the local recreation center too, as many community activities take place there. In the case of Friendship Heights, where much of their population is in the senior citizen category, their recreational activities at their town hall could well be characterized as assistance to the aging as well as recreation.

In terms of **public safety**, it's clear that most of our communities do not have the same level of crime that say Silver Spring or Wheaton has. But living as many of us do on the edge of the district and near commercial areas in Bethesda and Kensington, we are subject to burglaries, robberies and everyday criminal acts. Because the County is limited, we augment what the County provides by hiring additional police---either through contracts with off-duty Montgomery County police or with the Chevy Chase Police department. We currently don't get reimbursed for any of the extra expenditures that we use for these services. We are not talking about "enhanced services" either, just basic patrols and attention to our specific needs—speed control on Connecticut Avenue and Brookville Road (both State highways) for example. The County has been very cooperative when we have had problems and brought in undercover people, forensic help, etc. But on a day-to-day basis, we don't feel that we have the coverage we would like and need. As it is, when the County gets a call for Chevy Chase, more often than not, they dispatch the Chevy Chase Village Police---for which they are not reimbursed, nor are we for their time in our communities under contract.

Snow removal in our communities is handled differently. A number of the Chevy Chase Towns and Villages provide additional snow shoveling for our elderly residents—specifically, the public sidewalks. This is an additional cost to us, but we feel it is a way to help retain these individuals in our communities while removing a major source of concern for them. It's not a matter of lack of funds necessarily that brings us to providing this service, but rather a lack of personnel. I don't know what category you have for services to the aging, but this is definitely one and some winters, it's a big number! Many of us also provide the names and addresses of young people in the community who wish to rake leaves and shovel snow for our residents—a service not provided by the County but a very meaningful one for our residents, particularly our senior citizens—many of whom provide major income and property tax revenues to both our municipalities and the County.

Trash removal....each municipality handles trash collection differently, but I believe we all provide twice a week pick-up for household trash, as the County once did before the advent of the "supercan" and budget cuts. Some of us have bulk trash pick-up a few times a year, others monthly, still others have a dumpster for residents to deposit larger items in. Most of us pay for rear yard pick-up of household trash, rather than once a week curbside as is done in the county. Aside from not wanting to give up this service, it's of great benefit to our elderly citizens, because it doesn't force them to haul trash cans out to the street. So while it's trash collection, it's also a service to the elderly...not something that can easily be quantified (although I'm sure we could provide you with numbers on how many individuals are 65 and older in each of our communities).

Social work—connecting people. We all do extensive networking in our communities—there are clubs, special groups who meet on a regular basis, ways in which we minimize the isolation of everyone from elderly people living alone to young mothers at home with toddlers. Not only do these activities bring neighbors closer together, they I'm sure, prevent problems that might otherwise involve county social services agencies. In addition, many of the communities have active charitable donation drives for everything from socks and gloves to furniture, all to help the needy in both Montgomery County and Washington, D.C.

Electricity—In addition to the costs to maintain various offices and equipment, we all pay the electricity bills for state highways used by Montgomery County residents well beyond our borders. In addition to lighting the way for many more than our own residents, we are charged a tax to the County which is not reimbursed to us…and should be. When a light goes out, we are the ones who report the loss to Pepco…not a County representative. When we need a new light on a street, we pay the costs—but there is no line item for that in the tax duplication figures. In fact, we are shorted two ways---we light the way for County residents using state highways in our neighborhoods, and we pay a tax to Montgomery County for the privilege!

Road Repair/ Signage—All of the communities within Chevy Chase Towns and Villages monitor the condition of streets and sidewalks in a manner that would be impossible to do on a County-wide scale. We all have capital budgets and long-range plans for improvements. Almost all of us work on a pay-as-you-go basis, with some notable exceptions, meaning we don't schedule work until we know we have money in our pockets. Many of our municipalities are debt-averse. Hence you'll see some large reserves of cash, not unlike the County's "rainy day funds" but these funds are also set aside for large capital improvement projects—and for emergencies

One of the most difficult parts of our jobs when it comes to working with utilities is to **preserve the integrity of our streets**, maintain the normal flows of traffic and necessary services like garbage, school bus routes, etc., while utilities do work in our communities. While the county may have inspectors who randomly check work done by these agencies, we do much more in notifying our residents of work to be done, of working closely with each utility to insure that the standards of construction are maintained and that work is done in a safe and timely manner. Yet there is no line item that covers that particular much-needed service.

Stormwater Management—Because we are so densely populated and so many of our homes are close together, we are constantly challenged by run-off issues---between homeowners, into our streets, etc. Several jurisdictions have taken funds out of their budgets to hire engineering consultants to resolve these issues—something the County simply does not have the manpower to do. Nonetheless, these are problems that the

County would otherwise have to address were it not for the municipal government and the Village Managers who identify these people and work with them.

Liability and other forms of Insurance—The County and Friendship Heights are both self-insured, which means when they are sued because of a County-caused liability, the taxpayer—our taxpayers, foot the bill. Yet by having separately insured municipalities, much, albeit not all of the liability that the County might incur is paid for and covered by individual municipalities. We maintain our own streets, we maintain general liability insurance to cover any problems that might arise from accidents or problems caused by our negligence. And those of us who contract for police work pay additional insurance for that. The County doesn't cover those costs nor are we reimbursed. So in essence, our residents are on the tab twice as it concerns liability coverage---our taxes pay whatever claims may be made against the County, and our taxes pay for the liability and other insurance coverage we carry for problems which might occur within our jurisdictions.

Legal and Accounting—While the County has large offices handling legal and accounting responsibilities, municipalities hire specialists to perform these services. Most jurisdictions deal with the day to day accounting and bill paying, but auditing and reporting responsibilities are done by outside contractors. The County has legal counsel to assist in making decisions or handling suits brought by residents, individual municipalities must pay for those services as part of their operational expenses. When the County reviewed and negotiated with Verizon and other cable carriers, all the municipalities joined together to hire an attorney to review the same documents from the perspective of each municipality. We saved costs by joining together and getting Verizon to pay some of those costs, nonetheless, we required an attorney to review the documents for each of the municipalities.

Recycling—In addition to the normal recycling, many of our communities are actively involved both programmatically and fiscally in recycling efforts. We, instead of the County arrange for leaf removal in the fall and their recycling. In some areas, we vacuum up the leaves and bring them for recycling, in others, we use leaf bags because our streets are too narrow for large piles of leaves. But we handle the collection expenses, NOT the County. In some areas, we have encouraged residents to be "Green" by handing out compact fluorescent light bulbs to save on electricity charges, free shopping bags and other public education drives to bring people's awareness to ways to be more responsible citizens. Where do these expenses end up? It depends on the jurisdiction—anywhere from community promotion to waste collection---but they are a value-added service we provide not just for our residents, but for the County as a whole.

We ask that you consider all these items when you are reviewing tax duplication reimbursements and when you are making budget decisions which affect our communities. We remind you that municipalities represent about 16% of the overall population of the County and that many of your supporters live in our communities.

MARYLAND GOVERNMENT

REPORT

A POLICY RESEARCH SERIES FROM THE INSTITUTE FOR GOVERNMENTAL SERVICE

Volume 3, Number 1 **Spring 1991**

DOUBLE TAXATION AND TAX DIFFERENTIALS IN MARYLAND

by

Steven G. Shandy and Walter E. Wilson

The Institute for Governmental Service is pleased to re-introduce the *Maryland Government Report*, an occasional policy research series published two to four times annually. Since taxation is a topic of particular interest in difficult economic times, the Institute has chosen to address double taxation and tax differentials in Maryland.

Government Consultants Steve Shandy and Walter Wilson examine several causes of double taxation and summarize both the legal debate in Maryland over double taxation, which began as early as 1879, and state and local policy action. Finally, the Institute's methodology for calculating tax differentials is explained in a six-step process with examples for a small, medium, and large municipality.

Calculating tax differentials is a very complex and controversial issue. While the method of calculating tax differentials presented in this *Report* has been modified and used in several states, it is not the only method. Regardless of the formula used, however, cooperation, compromise, and good will between county and municipal officials is required in order to determine equitable compensation for double taxation. As Mr. Shandy and Mr. Wilson caution, tax differentials are not necessarily a "pot of gold at the end of a rainbow" for municipalities. Some municipalities may find that the compensation its county currently provides is more generous than an amount based only on a calculated tax differential.

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INTRODUCTION

The Maryland Constitution and Code grant concurrent powers to municipalities and counties to levy taxes against real property.[1] Property taxes are the largest single revenue source for local governments in Maryland. In fiscal year 1988, property taxes accounted for roughly 29 percent of municipal revenues and 26 percent of county revenues. Because county and municipal governments levy taxes against the same property and because both are so dependent on property taxes as a source of revenue, conflicts surface occasionally for public debate. Chief among these conflicts between counties and municipalities is the issue of "double taxation" of municipal residents. A second conflict derives from the first: how to achieve fair and equitable compensation for double taxation.

A municipality that provides a number of services which the county also provides may discover that it can justify receiving compensation or additional compensation from the county. On the other hand, a municipality that provides only a few services may discover that the compensation it is currently receiving from the county is adequate or generous.

Double taxation has been defined as "two taxes of the same character ... imposed on the same property for the same purpose by the same taxing authority within the same jurisdiction during the same taxing period."[2]

EXECUTIVE SUMMARY

Double taxation of property within municipalities results when a county and a municipality located within the county both levy taxes on the same property to support similar local government services that the property owner receives only from the municipality. Tax differentials are reductions in municipal property owners' county property tax rate to compensate for services that their municipality provides in lieu of similar county services. The county government may adjust the rate at which property owners within municipal corporations are taxed based on the number and type of services provided by that municipality. Similar services that are provided by the county only in unincorporated areas and by municipalities to their residents are defined as parallel services.

This *Maryland Government Report* will present the necessary background information to provide a thorough understanding of double taxation in Maryland and of the Institute's method of calculating tax differentials. In this *Report*, the authors have reached the following conclusions about double taxation and tax differentials in Maryland:

- Double taxation occurs when municipal residents pay property taxes to the local governments of the municipality and county in which they reside to finance identical or similar services that they receive from only one source.

- Double taxation in Maryland occurs because municipal and county governments both have the authority to levy taxes on real property within their jurisdictions. Unlike many states, Maryland law grants county and municipal governments "concurrent" rather than "exclusive" authority to tax property within municipal corporations.

- A tax differential is a method of compensating for double taxation that directly benefits the municipal taxpayer; whereas, a tax rebate compensates the municipal government to aid in financing municipal services in lieu of county services.

- State law requires that each county shall meet annually with the governing body of each municipality to discuss the rate of county property taxation, but the law does not require that each county adjust its tax rate to compensate for double taxation.

- Most Maryland counties provide some degree of compensation to municipal governments that provide services to residents in lieu of similar county services.

- Double taxation of property owners in municipalities occurs but may not be as widespread as commonly thought due to the high degree of state–shared revenue that funds municipal services and increased county action to provide tax differentials or rebates.

- According to the Institute's methodology for calculating tax differentials, the amount of the tax differential directly corresponds to the number and level of services that a municipality and county provide. The higher the number and level of municipal services, the larger the differential; the lower the number and level of municipal services, the smaller the differential. Similarly, the higher the number and level of county services that parallel similar municipal services, the larger the tax differential; the lower the number and level of county services that parallel municipal services, the smaller the differential.

- It is possible that no tax differential could be awarded to small municipalities that provide very few services. In order to justify a tax differential from the county, a municipality must provide a sufficient number of services to offset the state–shared revenue that it receives.

Municipalities and counties may use the methodology for calculating tax differentials presented in this *Report* to estimate the amount of double taxation that may exist in their fiscal relationships and compare it to their current level of compensation. A municipality that provides a number of services which the county also provides may discover that it can justify receiving compensation or additional compensation from the county. On the other hand, a municipality that provides only a few services may discover that the compensation it is currently receiving from the county is adequate or generous.

However, double taxation can also result when two different taxing authorities, a county and a municipality located within the county, levy taxes on the same property to support similar local government services. At one time or another, double taxation has been an issue in most Maryland counties and in the General Assembly. It has been studied by the State Department of Fiscal Services, by State Commissions on City–County Fiscal Relationships (1959) and on Taxation and Fiscal Matters (1970), by a private financial consultant (Davon Management Group), and by the Institute for Governmental Service at the University of Maryland.

During the last fifteen years, various municipal and county governments have requested that the Institute for Governmental Service study the problem of double taxation for their specific jurisdiction and make recommendations to alleviate its effects. To respond to these requests, the Institute, with the assistance of the State Department of Fiscal Services, devised a methodology for identifying similar county and municipal services funded by property taxes and for calculating "tax differentials" to alleviate the effects of double taxation.

Tax differentials are reductions in municipal property owners' county property tax rates to compensate for services that their municipality provides in lieu of similar county services. The county government may adjust the rate at which property owners within municipal corporations are taxed based on the number and type of services provided by that municipality. These include such services as street maintenance, police protection, parks and recreation, garbage collection, planning and zoning, fire and rescue, and libraries. These services, provided by the county in unincorporated areas and by many municipalities to their residents, are defined as "parallel" services. An alternative form of county compensation to offset the effects of double taxation is the tax rebate. Rather than providing a lower rate of taxation to municipal property owners, the county returns property tax revenues to the municipal government to assist in financing parallel services.

This issue of *The Maryland Government Report* examines the double taxation of property within municipalities and the method of compensating for double taxation through tax differentials. The following sections discuss the causes of double taxation, the legal debate over double taxation, state and local policy regarding tax differentials, the effects of local government revenue sources on double taxation and tax differentials, and the Institute's methodology for computing tax differentials and tax rebates to alleviate double taxation. In examining these topics, the *Report* attempts to dispel some commonly held myths about double taxation and tax differentials in Maryland.

Causes of Double Taxation

There are several causes of double taxation of property within municipal incorporations. In Maryland, county and municipal taxation of the same property and the dependence upon the property tax as a source of revenue is one cause which has already been discussed. Three other principle causes of double taxation are as follows: population growth that has outpaced municipal annexation or has not been dependent upon the incorporation of new municipalities, the legal delegation of similar powers and functions to counties and municipalities, and the evolution of counties into full-service, local governments. Moreover, these causes of double taxation are not particular to Maryland but have been experienced to greater and lesser degrees in other states.

The traditional role of American county government has been to function as a subdivision of the state government in administering functions of statewide concern such as the maintenance of roads and highways, law enforcement, the criminal justice system, and welfare.[3] While municipalities are also administrative subdivisions of the state, their traditional functions are to provide the services their residents desire.[4] Typical services that municipalities provide include: water and sewer systems, street construction and maintenance, police and fire protection, and garbage collection.

Traditionally, desires for these services by non-municipal residents have been met through annexation of such areas into the municipality or the incorporation of a new municipality to provide these services.[5] However, property owners and developers have turned to county governments as alternative urban service providers when municipalities have been unable or unwilling to annex such areas or when economic factors such as high municipal taxes, expensive land values, and deteriorating infrastructures provide disincentives to annexation.[6] In an effort to meet these new responsibilities, county governments have used countywide revenues to support all county services, regardless of who benefits.

As the populations in unincorporated areas increased and the demands for municipal-type services grew, counties responded by providing services to residents in unincorporated areas. For example, one analyst noted the growing county provision and coordination of water and sewer services in 1965 by stating:

> *The roles of Baltimore City, the Washington Suburban Sanitary Commission, and the sanitary commissions of Anne Arundel, Howard, and Baltimore Counties have virtually precluded the development of numerous, small municipal program systems within the area....In the counties beyond the metropolitan corridor, the recent creation of sanitary commissions in seven counties...signals the emergence of county governments in what has been heretofore a municipal program.*[7]

While the existence of an incorporated area within a county that provides countywide services is a necessary condition for double taxation to occur, that alone is not sufficient. Counties must also have governmental powers that allow them to provide urban services parallel to those services provided by municipalities. If a county's governmental powers are limited to providing certain county–only services, such as public education and the court system, double taxation cannot exist. Some other governmental means has to be developed to supply urban services to residents of unincorporated areas, such as special districts.

There is no rational guide for determining which services municipalities should perform and which services counties should perform. The delivery of certain services at the county level may be more efficient due to economies of scale and the specialization of skills that a larger organization can realize.

Article 25 of the *Annotated Code of Maryland* enumerates the express powers of counties, which include many functions and powers similar to the powers of municipalities found in Article 23 of the Code. Common powers and functions include providing streets and highways, police protection, planning and zoning, libraries, parks and recreation. As a consequence, while double taxation is commonly perceived to occur more often in those counties with urbanized, unincorporated areas, it may in fact occur in any county, whether predominantly rural or urban.

Nonetheless, urbanization has been a major catalyst for county provision of urban services and hence the problem of double taxation. In fact, urbanization in several counties has caused the demand for municipal–type services to increase to such a degree that these counties have sought additional powers from the State and adopted charter home rule forms of county government. The Maryland Constitution provides for county home rule powers in Article XI–A that are very similar to the powers of municipal home rule enumerated in Article XI–E of the Constitution.[8] As a result, in recent decades several Maryland counties have assumed the role and functions of full–service, general–purpose local governments. Currently, 8 of the 23 counties in Maryland have charter home rule governments, and 5 have more limited "code" home rule.[9] Consequently, the role of municipal government as urban service provider is now shared with county governments.

The role of county governments as urban service providers in Maryland is even more apparent when one considers that even though Maryland is a highly urbanized state, residents of municipalities (excluding Baltimore City), account for less than 15 percent of the state's total population.[10] In addition, municipal expenditures for urban services account for less than 5 percent of total expenditures by all local governments (counties and municipalities) in Maryland.[11] Thus, most residents of urbanized areas receive "urban" or "municipal–type" services from county governments rather than municipal governments.

Not all county governments in the country function in this way. For example, in the New England States, urban areas have developed under local units such as towns, townships, and special purpose districts. These local governmental units, which cover smaller geographic areas, provide most of the public services, while the counties primarily administer the judicial system. Southern and far Western States, on the other hand, tend to rely on counties as general-purpose units of government rather than on special districts, towns, or townships. Therefore, Southern and far Western States may have two types of general–purpose local governments — counties and municipalities — that exercise a similar range of powers and that have overlapping territorial boundaries.[12]

There is no rational guide for determining which services municipalities should perform and which services counties should perform. The delivery of certain services at the county level may be more efficient due to economies of scale and the specialization of skills that a larger organization can realize. Counties also have larger tax bases and thus have greater resources to fund urban services. However, municipal governments may be most directly connected to the people they serve and may be in a position to provide the highest degree of responsiveness and accountability to the public. Therefore, the allocation of service responsibilities among counties and municipalities will likely depend upon such factors as the service demands and preferences of the resident populations, the degree of urbanization of a county, and the resources available from local tax bases.

The Legal Debate Over Double Taxation

The legal debate over double taxation in Maryland has generally focused on two questions: 1) does Maryland law permit municipalities and counties to tax the same property to fund the same services, and 2) if "double taxation" is legal, may counties levy lower property tax rates for municipal residents or make compensatory payments to municipal governments? Both of these questions originate from the relationship between counties and municipalities established in the Maryland Constitution and in state law. Various states respond differently to the issues raised by these two questions. For example, Florida prohibits "double taxation" of municipal residents; whereas, Georgia does not recognize county and municipal taxation of property within municipalities as double taxation. In one hundred years of case law, the State of Maryland has consistently answered questions concerning both the legality of double taxation and discounted county property tax rates in the affirmative.

Article XI–A of the Maryland Constitution and Section 5(O) under Article 25A of the *Annotated Code of Maryland* authorize county taxation of real property. Article XI–E of the Constitution and Section 2 under Article 23A of the Code provide for municipal taxation of real property. These concurrent taxing powers are also governed by Article 15 of the Maryland Declaration of Rights, which maintains that all State, county, and municipal taxes in Maryland:

> *...shall be uniform within each class or sub–class of land,...yet, fines, duties or taxes may properly and justly be imposed, or laid with a political view for the good government and benefit of the community.*

The provision that taxes be "uniformly" applied within counties appears to inhibit reductions in county tax rates to compensate for municipal delivery of services in lieu of similar county services. However, Maryland case law has permitted legislative enactments providing tax rate differentials for municipal residents on the condition that the differential does not relieve municipal property owners of all tax liability for county services.[13]

Legal debate in Maryland over double taxation goes back at least to the "Laurel cases" of 1879 and 1889. The original case concerned a law enacted by the Maryland General Assembly which mandated that county property taxes levied within Laurel for road purposes be returned to the Town to fund road improvements within the corporate limits. The Maryland Court of Appeals held that the statute did not infringe upon the "uniformity" provision of the Declaration of Rights.[14] This decision was reaffirmed in a 1914 case that examined a similar issue involving Carroll County and the City of Westminster.[15] The Carroll County case upheld an act of the General Assembly requiring the County Commissioners to pay the City of Westminster one–half of the annual county property tax revenue collected within that city's corporate limits to fund municipal roads.

The second Laurel case invalidated a law passed by the General Assembly that sought to return all county taxes levied within Laurel to the Town to fund any "desirable improvements the Town Commissioners might find proper."[16] The Maryland Court of Appeals held that such a blanket exclusion from county property taxation constituted "a plain violation" of Article 15 of the Maryland Declaration of Rights.

The Maryland Court of Special Appeals handed down its most authoritative opinion on the question of double taxation in Maryland in the 1975 case of *Griffin v. Anne Arundel County.*[17] Griffin and other property owners of the City of Annapolis claimed that Article 15 of the Maryland Declaration of Rights **requires** a county to remit to a municipal corporation a portion of the proceeds of county property taxes collected within the municipality. Furthermore, the Annapolis property owners alleged that the county property tax rate differential in effect at the time was arbitrary and represented only one–third of the amount to which municipal residents were lawfully entitled; thus, the county was violating the due process clause of the Fourteenth Amendment to the U.S. Constitution.

The court held that the Fourteenth Amendment required merely that proceeds from the county property tax be employed for the benefit of county residents and not to the exclusive benefit of the property owners who are taxed. The court also ruled that the Declaration of Rights did not require a county to remit to a municipal corporation a portion of the proceeds of the county property tax collected within the confines of the municipality, although such remission is permissible through legislative action.

The legal debate over double taxation in Maryland is aptly summarized by the following excerpt from the court's opinion in the *Griffin* case:

> *Fundamental considerations of fairness indicate that the City of Annapolis — and perhaps other municipalities throughout Maryland — may be entitled to more equitable tax treatment than they receive.... [Nonetheless,] we have found that appellants in this case are without a judicial remedy; but even if their cause were amenable to judicial intervention, the very nature of the problems involved in adjusting City–County taxation, with their complex economic and policy considerations argues persuasively for legislative rather than judicial action.*

[The]...history of double taxation case law demonstrates that states differ in how they view double taxation and in their policies to accept, deny, or alleviate double taxation.

In contrast to Maryland, the State of Florida has a constitutional prohibition against double taxation and statutory provisions for specific remedies. That prohibition is found in Article VIII, Section 1(h) of the Florida Constitution which specifically provides that:

> *Property situated within municipalities shall not be subject to taxation for services rendered by the county exclusively for the benefit of the property or residents in unincorporated areas.*

The Florida Supreme Court, however, has narrowly construed the exclusivity clause. The court developed a "substantial benefit" test in the 1970 case of *St. Petersburg v. Briley, Wild & Associates, Inc.* by ruling that county taxation of municipal properties is barred only when county services bring to municipal property owners no "real or substantial benefit."[18] The court held that tax–supported expenditures for a county sewage treatment plant, although it was not to be used by the county's municipalities, nevertheless benefitted the residents of those municipalities by preserving their health. This was true even though no lines, mains, pumping stations, or other physical facilities were constructed within city boundaries. The court stated that a reduction in pollution from open sewage discharge was substantial enough to be of countywide benefit, and hence, should be financed from countywide revenues. Other Florida appellate decisions handed down in the late 1960s and early 1970s have upheld the use of city–derived property tax revenues for a county fire department,[19] for county sewer facilities,[20] and for county roads, canals, and related improvements.[21]

Conversely, enforcement of Florida's constitutional prohibition against double taxation has led to the creation of formulas with which counties must provide tax rebates to the cities. In the case of *Manatee County v. Longboat Key*, certain municipalities brought an action to recover taxes paid for services rendered for the exclusive benefit of residents and property owners of unincorporated areas of the county. The District Court of Appeals held that once those county services providing no real or substantial benefits to municipal property owners have been identified, a vehicle must be devised whereby the cost of such services is paid only by those in unincorporated areas. The county must levy special taxes on all property in unincorporated areas, establish municipal service taxing units, or rebate the identifiable cost of such services which is funded by taxes levied on property within the municipality.[22]

In contrast to Florida's mixed legal history, the legal environment in Georgia has been consistently against the proposition that double taxation exists. Unlike Florida, the Georgia Constitution does not prohibit double taxation. The controlling legal reasoning in Georgia says that since all citizens are residents of the county in which they live, they cannot be relieved of paying county taxes by choosing to live within the boundaries of a municipality.[23] Thus, for Georgians residing in incorporated areas, not only does double taxation exist, it does so with no legal restraints and is thereby unamenable to judicial scrutiny.

In 1971, the State of Utah adopted a statutory provision under which certain classes of counties could provide municipal–type services solely to unincorporated areas. The counties were required, however, to cover the entire cost of those services with property tax revenues from the unincorporated areas or user fees imposed on the beneficiaries of the services or a combination of both. The Utah Supreme Court confirmed the validity of this requirement in a 1976 case resulting from a lawsuit filed by Salt Lake City against Salt Lake County.[24] The court ruled on behalf of the city and prohibited the county from using city–generated revenues to fund services provided only to unincorporated areas of the county.

This brief history of double taxation case law demonstrates that states differ in how they view double taxation and in their policies to accept, deny, or alleviate double taxation. Maryland's constitution, statutes, and case law accept double taxation as a natural result of the shared powers and functions granted by this state to both counties and municipalities. However, Maryland law does authorize local governments to alleviate the effects of double taxation, and a number of Maryland counties have exercised this authority by developing various policies to compensate for double taxation.

State and Local Policy Action

Prior to the decision of the Maryland Court of Special Appeals in *Griffin v. Anne Arundel County* in 1975, a few counties had already acted to remedy or at least compensate for double taxation of municipal residents. In addition, the Maryland General Assembly considered double taxation and tax differentials on several occasions before the *Griffin* decision and reached the same conclusion as the court: that legislative remedies negotiated at the local level between each individual county and its municipalities would provide the most effective solution to the problem of double taxation.

Caroline County was one of the first subdivisions in the state to grant municipalities compensation to help them fund municipal services provided in lieu of similar county services. In 1930, the county compensated municipalities with a property tax rebate. The Maryland General Assembly enacted local legislation authorizing Caroline County to make payments to its municipal governments equal to six percent of the county property taxes collected within each town to assist in improving and repairing streets, alleys, and roads.[25]

Harford County was the first subdivision in the state to grant property tax differentials to municipal residents owning real property. The Maryland General Assembly adopted a public local law in 1953 that established a tax differential for municipal residents in Harford County. The law restricted the county from levying taxes on property within municipalities to fund the following county services: the maintenance and construction of county roads outside municipalities; the services of the county highways department and roads engineer; road and highway lighting; and the construction, acquisition, and maintenance of dumps for the use of non–city residents.[26]

In 1959, the Maryland General Assembly appointed the Commission on City–County Fiscal Relationships to study tax differentials and the problem of creating a consistent basis for determining county tax differentials.[27] The commission concluded the following:

...no single solution [can] be developed to fit the varying needs of the State, but ... any possible solutions must be developed on a county-by-county basis, bearing in mind the character of the respective local governments involved, the nature of services which they render, and the needs and desires of their citizens.[28]

The committee recommended that county and municipal governments create commissions at the county level to identify governmental activities that may have financing inequities between municipal and county taxpayers and to devise solutions that would alleviate existing problems.[29]

The 1970 General Assembly established the Committee on Taxation and Fiscal Matters, which issued a report entitled *County Property Tax Rate Differential for Municipal Residents.*[30] The Committee's report included at least three findings that are relevant today.

First, the committee discovered instances in Maryland in which municipal residents paid county taxes for services that the county did not provide to them. Second, the committee found that the allocation of state-shared taxes among the counties and municipalities created instances where municipalities received a disproportionate share of revenues for the type of services provided.[31] The result was that "while some municipal residents [were] being subject to double taxation, some municipal residents [were] receiving double benefit from the allocation of non-property (state-shared) revenues."[32] Third, the committee concluded that in correcting some inequities, the State might promote uneconomical or ineffective delivery of services by small units of government.

The Committee on Taxation and Fiscal Matters reasoned that the first finding supported instituting tax differentials to provide greater tax equity for municipal residents, but that the second and third findings tended to downplay the negative effects of double taxation. Furthermore, the committee noted that several counties were actively providing some compensation to municipal governments in recognition of double taxation. Therefore, the committee reached a conclusion similar to that of the 1959 Committee on City-County Fiscal Relationships: corrective state-wide legislation to mandate tax differentials should not be enacted. Instead, the committee strongly urged each county to discuss its fiscal relationships with its municipalities and act at the local level to eliminate double taxation of municipal residents.

It was not until 1975 that the Maryland General Assembly enacted a general public law, which applies to more than one county, addressing the issue of tax differentials. The law followed the guidelines of the two previous commissions, permitting but not mandating county adoption of tax differentials:

The Board of County Commissioners or the County Council, after consultation with municipal officials, may levy a tax on the assessable property located within one or more of the municipal corporations of the County, which is less than the general County property tax rate, if the municipal corporation performs governmental services or programs in lieu of similar County governmental services or programs.[33]

In effect, this law required counties to consider possible double taxation of municipal residents and authorized them to levy property taxes at lower rates within municipalities that provided services or programs in lieu of similar county services. As an alternative, counties were permitted to make a payment to the municipal corporation rather than reduce the county property tax rate.

Current Maryland law still requires that each of the 23 counties "meet annually and discuss" with the municipal governments within the county the county property tax rate to be set in the municipal corporation.[34]

Current Maryland law still requires that each of the 23 counties "meet annually and discuss" with the municipal governments within the county the county property tax rate to be set in the municipal corporation.[34] However, state law now mandates that Allegany, Anne Arundel, Baltimore, Garrett, Harford, Howard, Montgomery, and Prince George's counties "shall impose" taxes on property within a municipality at a rate less than the rate set for property outside the municipal corporation.[35] Alternatively, these counties may still choose to direct a tax rebate to a municipal corporation rather than impose a lower tax rate on real property located within a municipality. In determining the county property tax rate to be set in municipalities these counties shall consider: (1) the services and programs that the municipal corporation provides in lieu of similar county services and programs and (2) the extent to which property tax revenues fund similar services and programs.[36]

The remaining fifteen counties "may impose" the county property tax on assessments of property in a municipal corporation at a rate that is less than the rate set for assessments of property in the parts of the county outside the municipality.[37] However, none of these fifteen counties are mandated to provide tax differentials or tax rebates to municipal corporations within their boundaries.

Table 1 summarizes the current practices of Maryland counties in providing tax differentials and rebates. Seven counties provide tax differentials, and eleven counties provide tax rebates. Baltimore and Howard Counties do not have any municipalities. Garrett County reported to the Department of Fiscal Services that no municipalities within the county provided services in lieu of similar county services.[38] Finally, Wicomico and Worcester Counties do not provide tax differentials or tax rebates.

Table 1 also lists the services that each county considers as "parallel" to similar municipal services when calculating their differential or rebate. The number of parallel services provided by the county government is a critical issue because generally the greater the number of parallel county services, the greater the tax differential. For example, municipal residents in Prince George's County may receive a tax differential for police, fire, public works, property and animal control, and community development services because the county provides these parallel services to residents of unincorporated areas. In contrast, municipal residents in Kent County may receive a tax differential to compensate for county police service and gypsy moth abatement only.

Table 1
Counties Providing Tax Differentials or Tax Rebates to Municipal Property Owners

	Parallel County Services Excluded from Taxation of Property within Municipalities
Tax Differentials	
Allegany	planning and zoning, police, public works, road maintenance, solid waste disposal
Anne Arundel	planning and zoning, police, fire, public works, recreation
Calvert	police, road maintenance, solid waste disposal, and street lighting
Charles	planning and zoning, police, public works, road maintenance, parks
Harford	road and bridge maintenance and construction
Kent	police, gypsy moth abatement
Prince George's	police, fire, public works, property and animal control, community development
Tax Rebates	
Caroline	road construction and maintenance
Carroll	grant for general purposes and a rebate for police and street maintenance
Cecil	grant for general purposes
Dorchester	police, street and boat ramp maintenance
Frederick	police, road maintenance, solid waste collection, parks
Montgomery*	street and road maintenance
Queen Anne's	street and road maintenance
St. Mary's	grant for general purposes
Somerset	police, road maintenance
Talbot	general purposes
Washington	police, road and park maintenance

*Note: Montgomery County also provides a tax differential to the residents of Takoma Park to compensate for municipal support of local fire services.

Source: Department of Fiscal Services, *1989 Report on County–Municipal Tax Differentials*, Annapolis, Maryland, December 1989.

Table 2
Sources of Local Government Revenue as a Percent of Total Revenue Fiscal Year 1988

Source	Percent of Total Revenue Municipalities	Percent of Total Revenue Counties
Property Taxes	28.8 %	26.1%
Service Charges (User Fees)	26.3	9.8
Miscellaneous Revenues	8.3	4.5
Debt Proceeds	8.1	3.1
Income Taxes	5.7	14.2
State–shared Taxes	4.9	4.0
Federal Grants	4.8	8.0
State Grants	4.2	23.6
County Sources	3.7	--
Licenses and Permits	2.3	.8
Other Local Taxes	1.6	5.9
Fines and Forfeitures	.7	.1
Other Intergovernmental Sources	.6	.1
Total	100.0 %	100.2%

Source: Maryland State Department of Fiscal Services, *Local Government Finances in Maryland, Fiscal Year 1988*, pp. 119–120; 333–340.

In short, since the General Assembly actions in the mid–1970s and the *Griffin* case of 1975, most Maryland counties have acted to remedy or alleviate the effects of double taxation. Therefore, the recommendations of the two state commissions that solutions to double taxation of property within municipalities be implemented on a county–by–county basis are being realized. However, calculating the severity of double taxation and evaluating the fairness of county compensation for double taxation requires an examination of the fiscal relationships between counties and municipalities, particularly the various sources of local government revenue that fund parallel services.

Sources of Local Government Revenues

Double taxation of real property occurs because counties and municipalities levy property taxes on the same property to fund parallel service expenditures. Calculations of tax differentials and tax rebates are based on the amount of tax revenue derived from property within a municipality to fund the county's parallel services. All "non–property tax revenue" that funds parallel county services, therefore, must be excluded from the tax rate differential provided to municipal residents. Consequently, the sources of local government revenue, whether property tax or non–property tax, and the relative amounts that each contributes to county expenditures for parallel services directly impact the amount of tax differential necessary to offset double taxation of property owners within incorporated municipalities.

Table 2 shows the sources of municipal and county revenue and the percentage that each source contributes to total revenues, on average, for all of Maryland's municipalities and counties in fiscal year 1988. For example, property taxation accounted for 29 percent of all municipal revenue and 26 percent of all county revenue in Maryland during fiscal year 1988.

As Table 2 indicates, property taxes are the single largest source of revenue for both municipalities and counties; however, double taxation may be more limited than commonly recognized. Roughly three–fourths of all county service expenditures are not funded from property tax revenue and thus not funded through double taxation. In other words, only 26 percent of all county service expenditures may possibly be derived, in part, through double taxation. The following example illustrates the effect of non–property tax revenues in limiting the scope of double taxation.[39]

For simplicity, the following assumptions have been made: (1) All county service expenditures are funded from the various revenue sources listed in Table 2 at the proportion each contributes to total funding (i.e., property taxes fund 26 percent of the total cost of each county service). (2) The county government provides parallel services to residents in unincorporated areas of the county that are similar to **every** service a municipal government provides to its residents. (3) The county levies the same property tax rate for residents within the municipality as in unincorporated areas. (4) The county property tax rate is $3.00, and the county government wants to adjust this rate to eliminate double taxation of property located inside the municipality.

Under these assumptions, the differential should be equal to the county property tax rate, $3.00, multiplied by .26, the percentage that property taxes fund the parallel services. This would allow municipal residents a $.78 tax differential, and the county property tax rate in the municipality would fall to $2.22. The amount of the tax differential cannot exceed the equivalent proportion of county property tax revenues that fund parallel county services.

In reality, few counties provide parallel services similar to every service a municipality provides to its residents. Furthermore, state–shared revenues returned to local governments partially finance parallel services and thereby reduce the amount of double taxation. State–shared revenues subsidize local government expenditures for certain specific services, such as highway and street maintenance and police protection. The State also collects revenue from several other major sources and shares these funds with local governments. Table 3 lists these sources of shared revenue, which include income taxes, state–shared taxes, other local taxes, and revenue from licenses and permits.

The following example illustrates how state–shared revenues subsidize local provision of a parallel service and further reduce the amount of double taxation. A municipality spends $100,000 for its police department and must levy a property tax of $.20 per $100 assessed valuation to generate the necessary revenue. The county government also provides police service, spending $1,000,000, and levies $.20 against its larger property tax base to generate the necessary revenue. Thus, the total rate of property taxes paid for parallel police services by the municipal resident is $.40 per $100 assessed valuation.

However, if the State funds a grant–in–aid program that provides one–quarter of the costs of local police protection, a property tax rate of $.15 per $100 assessed valuation in both the city and county would be sufficient to raise the same amounts of total revenue for police protection. State–shared revenue, therefore, reduces or offsets the double taxation to support parallel police services from $.40 to $.30 per $100 assessed valuation.

The amount of state–shared revenue generated by Maryland's tax structure and allocated to counties and municipalities has a substantial impact upon the justification for, and the size of, tax differentials. If a municipality provides very few services, it is possible that the state–shared revenues received by the municipality to help it fund these services will exceed the equivalent amount of county property tax levied against municipal residents to fund a parallel county service. In this case, no tax differential would be awarded.

The Maryland Department of Fiscal Services calculated tax differentials for each municipality in the state for the 1970 report of the Committee on Taxation and Fiscal Matters. The department's calculations concluded the following: seven counties would have levied a lower property tax rate for all municipal residents; four counties would have levied a lower property tax rate for residents in some of their municipalities and a higher property tax rate for residents in other municipalities; nine counties would have levied a higher property tax rate for residents in all of their municipalities; and one county would have levied the same rate within municipalities as in the county. The number of municipalities entitled to reductions in county property tax rates totalled 59; whereas, the number of municipalities that would have received increases in county property taxes totalled 88.[40]

In general, the greater the municipal and county dependence upon property taxes to fund parallel services, the greater the tax differential. Conversely, the greater the municipal and county dependence on "non–property tax" revenue to fund parallel services, the smaller the tax differential.

The Institute's Methodology for Calculating Tax Differentials

This section presents step-by-step calculations to determine tax differentials and tax rebates for a hypothetical municipality that provides a "medium" number of parallel services. As a general rule, the greater the number of services a municipality provides in lieu of parallel county services, the larger the tax differential. On the other hand, the smaller the number of services a municipality provides in lieu of similar county services, the smaller the tax differential.[41]

Table 4 illustrates this conclusion by contrasting the tax

Table 3
Allocation of State–shared Tax Revenue and Grants in Counties and Municipalities

Revenue Source	Counties	Municipalities
Local Income Tax (a)	Yes	Yes
Other Local Taxes		
Admissions & Amusement (b)	Yes	Yes
Recordation Taxes	Yes	No
Local Property Transfers	Yes	No
Local Sales Tax (c)	Yes	Yes
Trailer Park (b)	Yes	Yes
State–shared		
Transportation Trust Fund	Yes	Yes
Other State–shared		
Beer Tax	Yes	No
Distilled Spirits (Liquor) (d)	Yes	Yes
Tobacco	Yes	No
Corporation Taxes & Fees	Yes	Yes
Franchise Tax	Yes	No
Licenses & Permits		
License Fees	Yes	Yes
State Grants		
Education	Yes	No
Community Colleges	Yes	No
Health	Yes	No
Libraries	Yes	No
Public Safety	Yes	Yes
Miscellaneous	Yes	No

Notes:

(a) The income tax is actually a local tax from which the county must share a portion with the municipalities, although it is collected by the state.

(b) The admissions tax and trailer park tax are actually concurrent taxes levied by the county or the municipal corporation rather than shared.

(c) The local sales taxes are shared with various municipalities consistent with local law but are not shared generally with all municipalities in the state.

(d) Only three counties, Anne Arundel, Harford and Somerset, share revenues from the liquor tax with municipalities.

Source: Maryland State Department of Fiscal Services, *Legislator's Guide to State and Local Fiscal Relationships*, November 1986.

differential calculations for the "medium" municipality with similar calculations for two other hypothetical municipalities, one providing fewer services and the other, a larger number of services. The left column includes calculations for the municipality providing a "small" number of services and the right column shows those for the municipality providing a "large" number of services. (Hereafter, these are designated as municipality "S" (small), "M" (medium), and "L" (large).) The discussion of each step of the methodology is valid for all three municipalities, although the text enumerates each step to calculate the differential for municipality "M" only.

Municipality "S" would not receive a tax differential because the state–shared revenue it received to subsidize the one parallel service it provides exceeded the amount of county property tax revenue levied within the city to fund the similar county service. The calculations for municipality "L," conversely, result in a large, positive tax differential. This occurred because municipality "L" provides numerous parallel services and the county where it is located spends several million dollars on the services that residents of municipality "L" receive instead from their municipal government.

A few observations regarding the use and source of financial data in calculating tax differentials are necessary before discussing the Institute's methodology. First, county expenditures and revenues must be used in calculating tax differentials because the tax differential is a reduction of the county property tax rate for county services that municipal residents receive from their municipal government instead of from the county. Second, the most accurate and reliable expenditure and revenue data for local governments are available from the State Uniform Financial Reports filed annually by each county and municipality with the Maryland Department of Fiscal Services. Third, actual expenditure data for the prior fiscal year should be used in the calculations rather than budgeted data for the current fiscal year because budgeted data is less reliable due to uncontrollable fluctuations of revenue and expenditure. Finally, tax differentials should be recalculated annually because the amount of double taxation of property within municipalities will change in accordance with annual changes in county revenues and expenditures for parallel services.

STEP ONE: Review and Classify County Services that Parallel Municipal Services

Because counties and municipalities do not provide exactly the same number and type of services, one must analyze their Uniform Financial Reports to identify county services that parallel or duplicate municipal services. Therefore, the first step in calculating tax differentials is to analyze municipal service expenditures to determine what services the municipality provides and review county service expenditures to classify each county service as either "parallel" or "countywide."

Parallel services are those services which the county provides outside the municipality that are similar or equivalent to services that the municipality provides to its citizens. Services most often identified as parallel include police and fire protection, highway and street maintenance, planning and zoning, solid waste removal, water and sewer, inspections, and parks and recreation.

Municipality M: Parallel County Services

General Government
Highways and Streets
Planning and Zoning
Police

STEP TWO: Calculate Total County Expenditures for Parallel Services

Once each county service which parallels a similar municipal service is identified, one must evaluate the municipal and county expenditures for these services in order to exclude them from the municipal resident's county property tax liability. However, municipalities may not fully provide each service in lieu of a parallel county service. In such cases, the municipality may be entitled to partial but not full credit for providing these services.

For example, the county in which municipality "M" is located provides general government services, including political representation, financial administration, and administration of all county services and departments, legal fees, and general services. However, not all but only some of the county's general government expenditures support parallel services. The remainder of county spending for general government supports additional county services or programs that are not duplicated by municipality "M" and thus are not included in the tax differential. Therefore, municipality "M" is entitled to only a partial exemption from county taxation to support general government based on the "service rate" or degree to which the county provides the parallel service.

Service rates may be appropriate for other parallel services in addition to general government, such as police (if operational less than 24 hours per day) and volunteer fire and rescue services.[42] To illustrate, if municipality "M" provided police service from 6:00 a.m. to 12:00 midnight and relied on county police service from 12:00 midnight to 6:00 a.m., a service rate of .75 would be appropriate. (The county's police service is parallel during 75 percent of the day, and countywide the other 25 percent.) Municipality "M" would thus receive a 75% rather than 100% exclusion from county property taxation for police service: service rate of .75 multiplied by county expenditures for police of $330,064 equals $247,548.

In the example below, the figures in the first column represent the service rate or the rate at which the county and municipality provide the given parallel service. The second column shows the county's total expenditures to provide the parallel service to county residents.[43] The third column lists the total allowance for which municipal residents should receive property tax differentials. In order to simplify the analysis, service rates are used for general government expenditures only. (Table 4 reflects expenditure and revenue data from the third column only for the three municipalities.)

For municipality "M" all parallel services except general government receive a full exemption (service rate = 1.00) because the municipality fully provides each of these services within the town. However, because county expenditures for parallel services represents 16.5 percent of total county expenditures, a service rate of .165 is appropriate for general government. Thus, municipality "M" is entitled to a total allowance of .165 * $787,619 = $129,800 for general government.

Municipality M: County Expenditures for Parallel Services

	Rate	County Expend.	Total
General Government	0.165	$ 787,619	$ 129,800
Highways and Streets	1.00	2,046,740	2,046,740
Planning and Zoning	1.00	184,408	184,408
Police	1.00	330,064	330,064
Total		$ 3,348,831	$2,691,012

STEP THREE: Calculate Parallel Service Non–property Tax Revenues

It is not possible to calculate directly the amount of county property tax revenue that is used to fund parallel county services. Revenues that finance all county service expenditures originate from two sources: property tax revenue and non–property tax revenue. Tax differentials are calculated from county property tax revenues only. Consequently, non–property tax revenues must be deducted from the total allowance for parallel service expenditures estimated in step two to calculate indirectly the amount of county property tax revenue that funds a parallel service.

Non–property tax revenues include fees earmarked for specific functions and funding from general sources not linked to specific programs or services. Fees earmarked for specific functions include user fees such as sewerage charges, zoning and subdivision fees, state aid for police protection, and waste collection charges. Non–property tax revenues from general sources include state–shared revenues, income tax, and certain intergovernmental grants. Because municipalities receive revenue from these sources to aid in funding their parallel services, all non–property tax revenue from these same sources that the county also receives to subsidize parallel services in non–municipal areas must be subtracted as parallel service non–property tax revenues.[44]

The sum of non–property tax revenues from earmarked and general sources equals the total amount of non–property tax revenue for parallel county services. If service rates are used in step two to grant only a partial exclusion from county property taxation, they should also be used to provide a consistent adjustment of the amount of non–property tax revenue financing the parallel service.

Municipality M: Parallel Service Non–property Tax Revenues

Part One: Earmarked Non–property Tax Revenues

	Rate	County Revenues	Total
General Government	0.165	$ 0	$ 0
Highways and Streets	1.00	1,539,762	1,539,762
Planning and Zoning	1.00	118,547	118,547
Police	1.00	142,797	142,797
Subtotal		$1,801,106	$ 1,801,106

Part Two: General Source Non–property Tax Revenues

Local Income Tax	$312,150
Taxes—Local Other	28,370
Taxes—State–shared	13,819
Licenses and Permits	130,986
Subtotal	485,325
Total Parallel Service Non–property Tax Revenues:	$ 2,286,431

Table 4
Tax Differential Calculations for Three Hypothetical Municipalities

STEP ONE: Review and Classify County Services that Parallel Municipal Services

	Small Municipality	Medium Municipality	Large Municipality
1.	General Government	General Government	General Government
2.	Highways & Streets	Highways & Streets	Highways & Streets
3.		Planning & Zoning	Planning & Zoning
4.		Police	Police
5.			Recreation & Culture
6.			Housing & Urban Development
7.			Economic Development

STEP TWO: Calculate Total County Expenditures for Parallel Services

	Small Municipality	Medium Municipality	Large Municipality
1.	$147,716	$129,800	$5,147,574
2.	$2,839,490	$2,046,740	$20,105,767
3.		$184,408	$321,671
4.		$330,064	$75,942,040
5.			$17,337,496
6.			$7,712,970
7.			$1,927,256
Total	$2,987,206	$2,691,012	$128,494,774

STEP THREE: Calculate Parallel Service Non-property Tax Revenues

Part One: Earmarked Non-property Tax Revenues

	Small Municipality	Medium Municipality	Large Municipality
1.	$0	$0	$4,933,447
2.	$2,326,591	$1,539,762	$23,615,040
3.		$118,547	$395,267
4.		$142,797	$10,356,019
5.			$2,497,447
6.			$4,143,843
7.			$0

Part Two: General Source Non-property Tax Revenues

	Small Municipality	Medium Municipality	Large Municipality
Income	$477,731	$312,150	$25,606,609
Local	$45,422	$28,370	$1,670,757
Shared	$33,205	$13,819	$86,297
Licenses &Permits	$157,453	$130,986	$6,143,077
Total	$3,040,402	$2,286,431	$79,447,803

Table 4 (cont'd.)
Tax Differential Calculations for Three Hypothetical Municipalities

STEP FOUR: Calculate County-Municipal Tax Differential

(A) Parallel service expenditures (step 2) minus parallel service non-property tax revenues (step 3), equals parallel service expenditures funded by property taxation of municipality.

Small Municipality	Medium Municipality	Large Municipality
$2,987,206	$2,691,012	$128,494,774
$3,040,402	$2,286,431	$79,447,803
($53,196)	$404,581	$49,046,970

(B) The result of (A) divided by the difference of county assessable base and municipal assessable base per $100 assessed valuation, equals municipal tax differential.

Small Municipality	Medium Municipality	Large Municipality
$2,252,224	$4,625,783	$185,196,679
($0.024)*	$0.087	$0.265

STEP FIVE: Calculate Total Differential Allowance for Municipality (Equivalent to Tax Rebate Amount)

Tax differential amount multiplied by municipal assessable base per $100 assessed valuation, equals total for municipality.

Small Municipality	Medium Municipality	Large Municipality
———	.087 * 57,078	.265 * 8,580,789
———	$4,966	$2,273,909

STEP SIX: Calculate County Property Tax Rate for Municipal Property Owner

County property tax rate minus municipal tax differential equals county property tax rate for municipal property owner.

Small Municipality	Medium Municipality	Large Municipality
$3.000	$3.000	$3.000
0	$0.087	$0.265
$3.000	$2.913	$2.735

* While mathematical calculations may show a "negative" tax differential for the small municipality, the amount of the differential would be considered to be zero. In addition the municipality would not be eligible to receive a tax rebate (step 5) based on tax differential calculations and its county property tax rate would remain unchanged (step 6).

Source: Institute for Governmental Service, The University of Maryland, November 1990.

STEP FOUR: Calculate County–Municipal Tax Differential

Parallel service expenditures (step two) minus parallel service non–property tax revenues (step three), equals county parallel service expenditures funded by county taxation of real property. In other words, this is the amount of county expenditures for parallel services from which municipal residents should be exempt through tax differentials. To change this amount to a tax differential, divide the amount of county expenditures by the difference of the county assessable base minus municipal assessable base per $100 assessed valuation. The result is the estimated county property tax differential for municipal property owners.

Municipality M: Municipal Tax Differential

Parallel Service Expenditures		$ 2,691,012
minus		
Parallel Service Non–property Tax Revenues	–	2,286,431
equals		
Parallel Service Expenditures funded by Property Tax Revenue	=	404,581
divided by the difference of		
[(County Assessable Base minus Municipal Assessable Base) / $ 100]	/	4,625,783
equals		
Municipal Tax Differential	=	$0.087

STEP FIVE: Calculate Total Differential Allowance for Municipality

The total differential allowance for the municipality is the sum of differentials for all property owners in the city or town. The municipal tax differential (step four) multiplied by total municipal assessable base per $100 assessed valuation equals the total differential allowance to municipal residents for parallel county services. The total differential allowance also represents the amount of county "double taxation" of property within the municipality. Furthermore, the sum of differentials for all property owners is equivalent to a "tax rebate" amount that could be granted to the municipal government as an alternative to providing tax differentials to property owners in the municipality.

Municipality M: Total Differential Allowance

Municipal Tax Differential	$ 0.087
multiplied by	
Municipal Assessable Base/ $100	57,078
equals	
Total Differential Allowance (Tax Rebate Amount)	$ 4,966

STEP SIX: Calculate County Property Tax Rate for Municipal Property Owner

The county property tax rate for the municipal property owner is calculated by subtracting the municipal tax differential from the county property tax rate.

Municipality M: County Property Tax Rate for Municipal Property Owner

County Property Tax Rate	$3.000
minus	
Municipal Tax Differential	–.087
equals	
County Property Tax Rate for Municipal Property Owner	$2.913

CONCLUSION

This issue of the *Maryland Government Report* has examined double taxation of property located in municipal corporations and compensation for double taxation through tax differentials. Double taxation in Maryland occurs because municipal and county governments both have the authority to levy taxes on the same real property within their jurisdictions to fund the same services. Other causes of double taxation in Maryland include population growth and a resulting demand for municipal–type services in unincorporated areas, the State's delegation of very similar powers and functions to counties and municipalities, and counties' evolution into full–service, general–purpose local governments.

An examination of case law demonstrates that states differ in how they view double taxation and in their policies to accept, deny, or alleviate double taxation. Maryland's constitution, statutes, and case law accept double taxation as a natural result of the shared powers and functions granted by this state to both counties and municipalities. However, Maryland law authorizes local governments to alleviate the effects of double taxation, and eighteen Maryland counties have exercised this authority by developing various policies to compensate for it.

Calculating the actual amount of double taxation of property within municipalities and evaluating the equity of county compensation for double taxation, however, requires an examination of the fiscal relationships between counties and municipalities. The methodology for calculating tax differentials proposed in this *Report* is just one way of measuring the amount of double taxation of property within municipalities and estimating an equitable tax differential.

Even though the methodology is based on an objective analysis of the fiscal relationship between two local governments, it presupposes and is dependent upon cooperation between a county and its municipalities. Determining which county services parallel municipal services and the service rate (total or partial) of municipal provision of these services involves subjective judgments. These judgments depend upon a mutual willingness by the governing officials of the county and municipality to compromise and negotiate in good will.

Furthermore, the Institute's methodology does not account for all possible fiscal inequities that may exist between a county and municipality. Examples of these include the loss to municipal assessable base from non–taxable county–owned property within a municipality, delivery of municipal police or fire services beyond municipal boundaries, and county assessment of user fees for municipal use of certain facilities or services such as landfills or recycling of solid waste. In short, this method is not a means of calculating county aid to municipal governments but of alleviating specific inequities occurring through county taxation of real property. Several counties and public and private organizations use a number of different methods to calculate county compensation to municipalities. These methods may be more appropriate for certain counties and municipalities.

A county's adoption of tax differentials or tax rebates to alleviate double taxation of municipal residents will rarely be a "pot of gold at the end of the rainbow" for a municipality. As this report suggests, double taxation of property owners in municipalities does occur but may not be as widespread as commonly thought due to the high degree of state–shared revenue that funds municipal services and increased county action to provide tax differentials or rebates. Moreover, it is possible that no tax differential would be awarded to small municipalities that provide very few services. In order to justify a tax differential from the county, a municipality must provide a sufficient number of services to offset state–shared revenue that it receives.

The Institute recommends that municipalities and counties consider using its methodology to calculate the degree of double taxation that may exist in their fiscal relationships and compare it to their current level of compensation, if any, for double taxation. A municipality that provides a number of services that the county also provides may find that it can justify receiving compensation or additional compensation from the county. On the other hand, a municipality that provides only a few parallel services may discover that the compensation it currently receives from the county is adequate or generous.

TABLES

1. Counties Providing Tax Differentials or Tax Rebates to Municipal Property Owners.

2. Sources of Local Government Revenue as a Percent of Total Revenue, Fiscal Year 1988.

3. Allocation of State–shared Tax Revenue and Grants in Counties and Municipalities.

4. Tax Differential Calculations for Three Hypothetical Municipalities.

ENDNOTES

1. Article XI–E of the Maryland Constitution and Section 2 under Article 23A of the *Annotated Code of Maryland* provide for municipal taxation of real property. Article XI–A of the Constitution and Section 5(O) under Article 25A of the Code authorize county taxation of real property.

2. Griffin v. Anne Arundel County, 25 Md. App. 115, 333 A.2d 612 (1975) (quoting Rhyne, *Municipal Law* 673 (1957)).

3. Russell W. Maddox and Robert F. Fuquay, *State and Local Government*, 4th ed. (New York: D. Van Nostrand Company, 1981), p. 275.

4. Maddox and Fuquay, p. 275.

5. Jean E. Spencer, *Contemporary Local Government in Maryland*, (College Park, Md.: University of Maryland, 1965), pp. 42–43.

6. Maddox and Fuquay, pp. 349–351.

7. Spencer, p. 110.

8. Spencer, p. 33.

9. Queen Anne's County became the fifth "code" home rule county following its approval by popular referendum on November 6, 1990.

10. The State of Maryland officially recognizes Baltimore City as a county government except where such recognition would be deemed unreasonable. *Annotated Code of Maryland*, Article 1, section 14(a) and Article 24, section 1–101 (1987).

11. Letter from William S. Ratchford, II, Director of the Maryland State Department of Fiscal Services, October 9, 1990.

12. Maddox and Fuquay, p. 311.

13. Griffin v. Anne Arundel County, 25 Md. App. 115, 333 A.2d 612 (1975).

14. County Commissioners of Prince George's County v. Commissioners of Laurel, 51 Md. 457 (1879).

ENDNOTES

15. County Commissioners of Carroll County v. Mayor and Common Council of Westminster, 123 Md. 198, 91 A. 412 (1914).

16. Commissioners of Prince George's County v. Commissioners of Laurel, 70 Md. 443 (1889).

17. Griffin v. Anne Arundel County, 25 Md. App. 115, 333 A.2d 612 (1975).

18. St. Petersburg v. Briley, Wild & Associates, Inc., 239 So.2d 817 (Fla.1970).

19. Dressel v. Dade County, 219 So.2d 716 (3d DCA Fla.1969).

20. City of Waldo v. Alachua County, 249 So.2d 419 (Fla.1971).

21. Burke v. Charlotte County, 286 So.2d 199 (Fla.1973).

22. Manatee County v. Town of Longboat Key, 352 So.2d 869 (Fla.App.1977).

23. Association of County Commissions of Georgia, "How the Court Views Questions of 'Double Taxation,'" *Georgia County Government Magazine* 28 (June 1976): 12.

24. Salt Lake City Corporation v. Salt Lake County, 500 P.2d 1291 (1976).

25. *Caroline County, Md. Code*, Article 6, sec. 58 (1930).

26. *Harford County, Md. Code*, Chapter 295, sec. 466D (1953).

27. *Report of the Maryland Commission on City–County Fiscal Relationships*, established by Joint Resolution No. 26 of the 1959 Maryland General Assembly. The commission also studied two other issues not directly related to tax differentials.

28. *Report of the Maryland Commission on City–County Fiscal Relationships*, p. 12.

29. *Report of the Maryland Commission on City–County Fiscal Relationships*, p. 12.

30. Maryland Legislative Council Committee on Taxation and Fiscal Matters, *County Property Tax Rate Differential for Municipal Residents* (Annapolis, MD), 1970.

31. The effects of state–shared revenues on tax differentials is examined in greater depth in the next section.

32. Maryland Legislative Council Committee on Taxation and Fiscal Matters, p. 330, addendum.

33. *Annotated Code of Maryland*, Article 81, sec. 32A (1957 edition, as amended), (repealed 1988). Caroline, Cecil, Dorchester, Kent, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester Counties were originally exempt from this law.

34. *Annotated Code of Maryland*, Tax Property Article, sec. 6–305 (1990).

35. This mandate is effective on the condition that the municipality can demonstrate that it performs certain services or programs in lieu of similar county services or programs.

36. *Annotated Code of Maryland*, Tax Property Article, sec. 6–305 (1990).

37. *Annotated Code of Maryland*, Tax Property Article, sec. 6–306 (1990).

38. Department of Fiscal Services, *1989 Report on County–Municipal Tax Differentials*, Annapolis, Maryland, December 1989. According to the Director of the State Department of Fiscal Services, Garrett County's report that no municipalities provided parallel services in 1989 is not accurate because each provided street maintenance.

39. This example greatly oversimplifies the procedure for calculating a tax differential because it does not take into account the amount of county service expenditures or the number and level of parallel services. Its purpose is merely to illustrate that tax differentials can be calculated only for parallel service expenditures funded by county property taxation.

40. Maryland Legislative Council Committee on Taxation and Fiscal Matters, p. 327.

41. This general rule also applies for counties. The greater the number of services a county provides that parallel municipal services, the greater the tax differential and vice versa.

42. When determining service rates for specific parallel services such as police, fire, planning and zoning, etc., the level or rate at which the municipality provides the service should be used to determine the "service rate." The rate at which the county provides a parallel service should be used only in cases when the county's parallel service is partial, as in the previous example for general government.

43. For this report, the county's total expenditures for each parallel service includes the cost of employee benefits. If a county reports employee benefits as a separate program for all county employees instead of including them for the department or service, these costs should be added to the expenditure amount for each parallel service.

44. Only the non–property tax revenues from general sources that municipalities receive (see Table 3) should be subtracted in part two of step three as non–property tax revenues that fund parallel county services. Counties receive state–shared revenue from additional sources that municipalities do not receive and therefore these should not be included in step three.

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Two Approaches for Computing Property Tax Differentials for Property in Ocean City, Maryland

Two Approaches for Computing Property Tax Differentials for Property in Ocean City, Maryland

Victor K. Tervala

Project M-117

Institute for Governmental Service
Center for Applied Policy Studies
University of Maryland, College Park

May 1999

Contents

Executive Summary

In the late summer of 1998, the Town of Ocean City, Maryland approached the Institute for Governmental Service (IGS) about computing a tax differential. A tax differential - or tax setoff, as some people call it - arises when a municipality provides the same or similar set of services provided by the county. A tax differential is defined as the amount by which the county reduces the county tax rate in a municipality to compensate for the provision of duplicated services. IGS agreed to the request and work began in December, 1998.

IGS has worked for several decades with tax setoffs. It developed two methods to calculate tax setoffs based, in part, on the general guidelines established in state law. As required by state law, each method looks at duplicated services and the amount of tax revenue that funds these services. Moreover, since two basic types of problems arise from duplicated services, IGS developed two methods to measure and compensate for each problem.

One type of setoff problem arises from the workings of a federated system, where county residents also may be municipal residents and pay taxes for overlapping services. When a municipal service such as police protection duplicates a county service, the municipal service displaces (or at least mitigates) the need to receive police protection from the county. To resolve this type of problem, a tax setoff formula will seek to compensate the municipal taxpayer for paying taxes toward county services that they cannot enjoy - or cannot enjoy to the same extent available to other county taxpayers.

The other type of setoff problem compensates for the invisible subsidy granted by municipal taxpayers to the county government. In this situation, municipal services reduce the need for the county to provide services in the municipal area. The savings realized by the county is the measure of the subsidy given the county government by municipal taxpayers. IGS contends that a method that measures this type of problem must be different than a method that measures the other type of problem. In the former case, a method measures what is not received by municipal residents. For the second type of problem, the method measures what the county saves by municipal operations.

IGS Approach 1 measures the first type of problem. IGS Approach 2 measures the second type of problem. Experience with these methods shows that they can produce very different tax differentials and tax rebates in the same jurisdiction

Applying the methods to Ocean City and Worcester County, IGS found the duplicated services include: planning and zoning; police; fire and rescue; volunteer fire and rescue; animal control; emergency alarm (911); transportation services (primarily spending on highways and streets); parks and recreation; and economic development. These are all categories of spending found in the Uniform Financial Reports (UFRs) filed annually by each jurisdiction with the state government. Using primarily the amounts of spending reported in each of these categories, the county spent $8,600,544 on these duplicated services in FY 98. Under IGS Approach 1, this amount of spending produces a tax differential for Ocean City of $.25 or a tax rebate of $3,612,691. Alternatively, Ocean City spent $24,601,789 on this set of duplicated services. Under IGS Approach 2, this amount of municipal spending produces a tax differential for Ocean City of $1.33 or a tax rebate of $19,221,778.

The results produced under IGS Approach 1 and IGS Approach 2 are meant to be the beginning points of discussion between the county and the municipality. Tax differentials are always products of negotiations. No one but the parties can decide what might be a proper result under all the circumstances that prevail in a jurisdiction. The data presented here provide a list of services and a set of numbers to begin discussion. If the parties agree that this list of services and numerical data are more or less supportable, then the results produced here can acquire more meaning. The larger of the two reported results, for example, can be viewed as a ceiling--the maximum amount the county might consider as a tax setoff. The smaller of the two results might be viewed as a floor--the minimum amount the county might consider. Serious negotiations can then focus of amounts that lie between these two figures. Alternatively, the parties, after negotiations, may come to decisions that are not contemplated in these pages. In this case, this report must remain merely a catalyst for discussion.

Introduction

In the late summer of 1998, the Town of Ocean City, Maryland approached the Institute for Governmental Service (IGS) about computing a tax differential. A tax differential--or tax setoff, as some people call it--arises when a municipality provides the same or similar set of services provided by the county. A tax differential is defined as the amount by which the county reduces the county tax rate in a municipality to compensate for the provision of duplicated services. Alternatively, instead of providing a tax differential, counties sometimes calculate the total value of the tax differential spread among all the municipal property owners and provide a "tax rebate" directly to the municipality in this amount. In any event, for several decades IGS has been involved in helping jurisdictions throughout the state compute tax differentials and tax rebates. IGS agreed to help Ocean City calculate a tax setoff and work began in December 1998.

Tax setoffs in Maryland are provocative subjects, causing a great deal of debate and consternation in local government circles. The law on the subject is broadly written, largely leaving its method of computation for each county to decide individually. Developed from its years of experience, IGS uses two formulas that agree with the broad requirements of state law and satisfy the various underlying policy concerns.

Certain Maryland counties also have developed their own approaches, some similar if not identical to the IGS approaches, and some quite different. This report applies the two IGS formulas for computing a tax differential to Ocean City, Maryland, located in Worcester County. It begins below with a review of the policy concerns underlying tax setoffs in Maryland.

Double Taxation?

Debate at the state and local level for providing tax setoffs for municipal residents is commonly focused on the issue of double taxation. The state Department of Fiscal Services 1996 Report on County-Municipal Tax Differential states, "The theory underlying property tax set-offs is that they compensate for double taxation of municipal taxpayers which occurs when both municipal and county property taxes are levied to fund similar services."[1] The Maryland Municipal League in written testimony before the General Assembly in 1997 declared, "A property tax setoff compensates municipal taxpayers for double taxation by providing a lower county tax rate...for property owners within a municipality or by providing a direct payment...to the municipality."[2]

In 1975, however, Maryland's second highest court held that double taxation did not arise when counties and municipalities provide parallel services. Different taxing authorities taxing the same property is not double taxation, the court said in *Griffin v Anne Arundel County*.[3] Only the same taxing authority taxing the same piece of property twice defines double taxation.[4] What *is* created when the services of two general governments overlap can be viewed in the following scenario.

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1 Department of Fiscal Services 1996 Report on County-Municipal Tax Differential, at page 1.

2 Maryland Municipal League Testimony for HB 1112.

3 25 Md. App. 115 (1975).

4 Id. at 128.

For the sake of illustration, assume an urban area in an otherwise rural county decides to incorporate. The new municipality decides to provide only police services to its residents, in addition to general government services. What will be the affect on the county budget?

Clearly the county will be burdened no longer with having to provide police services in the urban area. The county budget for police services consequently will decrease over previous year amounts. Suppose the police budget was $10 million, and it is cut by 30 percent to $7 million as a result of the municipal incorporation. The amount of property tax revenue supporting the police budget would drop proportionately in this scenario. All county taxpayers would end up benefitting by the change in police services.

The scenario points to several other conclusions. First, providing municipal services does not lead to double taxation. The county budget takes into account the fact that the new municipality will be providing police services. County spending will be reduced. More to the point, the situation does not lead to a pretense in which county tax revenue is collected to duplicate the municipal service; estimated county expenditures are not artificially inflated. Consequently, municipal taxpayers cannot claim they are being taxed twice for services they receive only once. They are taxed once by the municipality for municipal police services and once by the county for county police services. The two do not somehow combine or overlap to create double taxation.

From this scenario, a second conclusion is obvious: a hint of unfairness has arisen. Municipal taxpayers are being taxed for a service the benefit of which, by design and intent, will be limited to nonmunicipal areas. Is the county taxation therefore wrong and compensable in this case? The City of Annapolis, in fact, argued in *Griffin* that it was unlawful and improper for the county to tax city residents for services that were being furnished only to areas outside of Annapolis. Municipal residents, they claimed, could not receive their fair share of benefits from their county tax dollars.

The court rejected the argument. It stated that the proceeds of any ad valorem tax levied by the county, such as the property tax, need only be employed for the benefit of the county. The law does not require a demonstration of any specific benefit to the property owners who are taxed, the court said. Thus, the court held that the applicable law made the situation neither wrong nor compensable. The court, however, went on to complain about the narrowness of the law they had before them.[5] It concluded the case noting that "fundamental considerations of fairness indicate the City of Annapolis--and perhaps other municipalities in Maryland--may be entitled to a more equitable tax treatment by the counties than they receive.[6]

An Invisible Subsidy to County Government

While the City in *Griffin* complained about services they could not receive, another type of equity problem lay unexplored: Municipal taxpayers provide an accidental and uncompensated benefit to county government. This can be seen in the hypothetical example outlined above.

In the example the county is obligated to provide police service in the urban area in the

5 Id. at 130 -131.

6 Id. at 138.

absence of the municipal service. The presence of the municipal service reduces the scope and cost of a parallel county service by $3 million. Instead of spreading out the $ 3 million cost to all county taxpayers, only a subset of county residents, municipal taxpayers, shoulder the $ 3 million cost burden. The municipal service effectively shields all other (meaning nonmunicipal) county taxpayers from paying a cost that would otherwise be theirs. In effect, municipal taxpayers provide a $3 million subsidy to county government. This invisible subsidy, created whenever a municipal corporation duplicates a county service, becomes a compelling argument for granting a tax setoff.

This is not to say that compelling counter-arguments against granting a tax setoff are absent. In fact, a powerful counter-argument focuses on the consent of taxpayers to shoulder their tax burden. Specifically, municipal taxpayers voluntarily own property in a municipality. They tacitly consent to their tax burden. In legal parlance, consent is generally held to negate any semblance of wrongdoing that may attend an act in question. Moreover, in paying the added tax burden, municipal taxpayers receive special services that other county tax payers do not receive; i.e., municipal services that are tailored to municipal needs. Consequently, municipal taxpayers have made a rational decision to bear the *cost* of municipal residency to acquire the *benefits* of residency. Why should a tax setoff be granted in this case?

Maryland Law on Tax Setoffs

The Maryland General Assembly grappled with these questions 20 years ago in framing the public policy regarding tax setoffs. It decided that in some counties setoffs are mandatory, when certain conditions are met; in the remaining counties, the county governing body decides whether to grant a tax setoff. Arguments for and against granting tax setoffs are still live political issues in these counties.

Thus under Maryland law whether or not a tax setoff is granted depends, in part, on municipal location. Throughout Maryland, state law requires county and municipal officials to meet and confer each year over the county property tax rate applied within municipalities. The law provides further that in eight Maryland counties a lower tax rate *must* be applied when a municipality shows it duplicates county services and programs. In the remaining counties, even when duplicated services are shown to exist, state law provides local discretion in regard to providing tax setoffs. These county governments may or may not decide to provide tax setoffs.[7] Worcester County, in which Ocean City is located, is one of the counties for which a tax setoff is not mandatory even when duplicated services are shown to exist.

In setting a lower tax rate, counties that are obligated to provide a tax setoff under certain conditions must consider two factors: (1) the services and programs duplicated by county and municipal government; and (2) the extent to which these services and programs are funded by property tax revenue.[8] All other counties may consider the above two factors, according to state law, but they are not required to consider them. No other guidelines, however, are given by the state and consequently, Maryland local governments are free to construct their own methodologies. As

7 MD. CODE ANN., TAX-PROP §§ 6-305 & 6-306 (1994).

8 Id.

the following discussion shows, the IGS Approach 1 formula meets the legal criteria noted above, as does (perhaps more arguably) the IGS Approach 2.

IGS Approaches

IGS developed two methods to calculate tax setoffs based, in part, on the general guidelines established in state law. As required by state law, each method looks at duplicated services and the amount of tax revenue that funds these services. Moreover, since two basic types of problems arise from duplicated services, IGS developed two methods to measure and compensate for each problem.

As discussed in the introduction, one type of problem with setoffs arises from the workings of a federated system, where county residents may also be municipal residents and pay taxes for overlapping services. When a municipal service such as police protection duplicates a county service, the municipal service displaces (or at least mitigates) the need to receive police protection from the county. To resolve this type of problem, a tax setoff formula will seek to compensate the municipal taxpayer for paying taxes toward county services that they cannot enjoy--or cannot enjoy to the same extent available to other county taxpayers.

The other type of setoff problem compensates for the invisible subsidy granted by municipal taxpayers to the county government. In this situation, municipal services reduce the need for the county to provide services in the municipal area. The savings realized by the county is the measure of the subsidy given the county government by municipal taxpayers. IGS contends that a method that measures this type of problem must be different than a method that measures the other type of problem. In the former case, a method measures what is not received by municipal residents. For the second type of problem, the method measures what the county saves by municipal operations.

IGS Approach 1 measures the first type of problem. IGS Approach 2 measures the second type of problem. Experience with these methods shows that they can produce very different tax differentials and tax rebates in the same jurisdiction. Since the approaches measure different things, this result should be expected. Moreover, depending on the fiscal characteristics of a county and municipality, Approach 1 sometimes yield the higher amount; sometimes the lower amount.

IGS Approach 1 - In General

IGS Approach 1 measures the cost of county services that municipal taxpayers do not enjoy to the same extent as other county taxpayers. Approach 1, like Approach 2, uses data contained in the Uniform Financial Reports (UFRs) filed by each jurisdiction in October with the state for the most recently concluded fiscal year. The steps in the approach can be summarized as follows.

First, IGS selects county and municipal services that duplicate one another. These typically include highways and street programs, police, fire, planning and zoning, and recreation. Next, county spending on these programs is totaled. Third, the indirect or overhead costs for providing the duplicated services are calculated. Calculating indirect costs requires determining the percentage of the budget that is spent on providing direct duplicated services and multiplying the percentage by the amounts spent on such overhead items as the county legislative programs, financial administration, legal services, personnel, central services, and other types of overhead. Together with the direct costs of providing duplicated services, the two amounts are the total cost for providing duplicated services.

Approach 1 next goes through a series of computations to determine the amount of the duplicated services that are being funded through the property tax. Here we begin by subtracting offsetting revenue amounts from the cost of duplicated services. In the IGS method, offsetting revenue is called earmarked revenues and, by definition, these are not funds that are derived from the property tax. Instead, these are revenues that are programmatically linked to a service and that go towards paying the cost of a service. For example, highway user fees received from the state are treated as earmarked revenue in Approach 1 because they offset spending in highways and streets. IGS Approach 1 requires putting earmarked revenue into two pools: duplicated services and non-duplicated services.

Once the earmarked revenue has been subtracted from the cost of duplicated spending, the remaining amount reflects revenue received from taxing and other general sources of income. Within this pool of funds, IGS needs to know the percentage that is comprised of property tax revenue. This is an easy calculation because the UFR reports the total amount of property tax received in the most recently completed fiscal year. The percentage of revenue that is comprised of property tax is used to determine the amount of property tax revenue that funds duplicated services. Specifically, IGS multiplies the percentage by the amount of duplicated services to establish the amount of duplicated services funded by the property tax. By dividing the non-city assessable base into this amount, the tax differential is computed. The various tax rates are then computed. As the following shows, IGS Approach 1 yields a tax differential of $.25 for Ocean City.

Approach 1 Calculations

A. Calculate Duplicated Service Expenditure

1. *Calculate Cost of Direct Services*

The UFRs for Worcester County and the Town of Ocean City showed common spending in nine service categories. These categories, shown below, are the duplicated services from which the tax differential is calculated. The total direct (General Fund) county cost for duplicated services in FY 1998 was $8,008,951. Note that water and sewer services are not included as duplicated services. While both the county and municipality provide water and sewer service, the county's service is contained in an enterprise fund and is not supported by property tax revenue. Since tax differentials are focused on services supported by tax dollars, water and sewer services are not considered a duplicated service for purposes of these calculations.

Planning and Zoning	$1,250,943
Police	1,259,095
Fire and Rescue	114,780
Volunteer Fire & Rescue	1,321,836
Animal Control	96,568
Emergency Alarm - 911	473,195
Transportation Services (Rds & Hgwys)	3,224,017
Parks and Recreation	408,458
Economic Development	264,270
Total	$8,413,162

This amount for direct spending needs adjustment. The county provides grants to Ocean City for providing certain duplicated services. These grants show up as expenditures in the county budget and need to be subtracted from the above total. Why? Because the above total is intended to represent the amount the county spends on services that the municipality does not receive. Since Ocean City is receiving the grant money for certain duplicated services, the amounts the county spends on the grants need to be subtracted. As the next data show, the grants total $404,211. When this amount is subtracted from $8,413,162, it shows total direct county spending on duplicated services to be $8,008,951.

Intergovernmental Revenue from County [9]

Public Safety	
Police	$ 19,198
Other-EMS	200,776
Highways and Streets	44,237
Parks and Recreation	20,000
Economic Development - Tourism	120,000
Total	$ 404,211
Total Direct Spending	$8,413,162
Less Intergov. Rev.	404,211
Total Spending on Direct Duplicate Services	$8,008,951

2. *Calculate Indirect Costs*

The above amount reflects only direct spending on duplicated (or parallel) services. Indirect or overhead spending on duplicated services also must be included, e.g., legislative affairs, financial administration, personnel administration and general services. Also included must be costs found in the UFR entitled "Miscellaneous," e.g., pension contributions and health insurance payments. The procedure used to determine indirect spending amounts is shown below. Under this methodology, indirect expenses total $591,593. When this amount is added to direct parallel service costs (see Step 3 below) the total amount spent on parallel services equals $8,600544.

(a) Indirect Spending: Determine General Program Expenditure

IGS uses the term "General Program Expenditure" to mean the total General Fund Expenditure, less the spending found under the categories of General Government and Miscellaneous in the County's UFR. Note that IGS subtracts planning and zoning expenditures from the category of General Government in the UFR because planning and zoning costs have already been captured as a duplicated service cost. Total General Program Expenditure totals $65,779,670.

Total General Fund Expenditure	$71,726,643
Less Overhead Expenses	
General Government (except planning and zoning)	2,968,077
Miscellaneous	2,978,896
Total General Program Expenditure	$65,779,670

(b) Indirect Spending: Determine Percentage of General Program Expenditure Spent for Direct (Duplicated) Services

Duplicated Service Expenditure	$ 8,008,951
General Program Expenditure (GPE)	65,779,670
Percentage of GPE Spent on Direct Duplicated Services	12.18%

9 From Ocean City's UFR, under general fund intergovernmental revenue.

(c) Indirect Spending: Identify Amount of General Government Expenditure Spent on Duplicated Services

Legislative	$ 422,195
Financial Administration	405,816
Personnel Administration	99,405
General Services	942,833
Other General Government	7,943
Total Supporting Expenditure - Gen.Gov.	$1,878,192
Multiplied by Percentage of GPE Spent on Duplicated Services	12.18 %
Total Gen. Gov't Exp. Spent on Dup. Serv.	$ 228,763

(d) Indirect Spending: Identify Amount of Miscellaneous Expenditure Spent on Duplicated Services

Retirement - Pension Contributions	$ 521,101
Employee Health Insurance	1,385,627
Workers' Compensation	95,057
Social Security Contributions	597,880
Other	379,231
Total Supporting Expenditure - Misc.	$2,978,896
Multiplied by Percentage of GPE Spent on Duplicated Services	12.18 %
Total Misc. Exp. Spent on Dup. Serv.	$ 362,830

(e) Indirect Spending: Calculate Total Amount of Indirect Spending Spent on Duplicated Services

Total Gen. Gov. Supporting Direct Services	$228,763
Total Misc. Supporting Direct Services	362,830
Total Amount of SupportingExpenditure	$591,593

3. *Calculate Total Spending for Duplicated Services*

Direct Spending on Duplicated Services	$8,008,951
Indirect Spending on Duplicated Services	591,593
Total Spending on Duplicated Services	$8,600,544

B. Identify Earmarked General Program Revenue

Once total spending on duplicated services is known, Approach 1 turns to calculating the amount of duplicated service spending that is funded by the county property tax. Several steps are involved. First, IGS breaks county revenue into four revenue pools: (1) property tax revenue, (2) earmarked revenue used for duplicated services, (3) earmarked revenue used for non-duplicated services and (4) all remaining revenue.

1. *Calculate Total Revenue Earmarked For Duplicated Services*

Licenses and Permits	
Animals	$ 1,636
Building and Equipment	473,798
Intergovernmental Revenue -	
From Federal Government	
Public Safety	131,256
Other- FEMA Salary Match	24,374
Conservation of Natural Resources	88,389
Economic Development & Opportunity	47,632
Intergovernmental Revenue -	
From State	
Public Safety	
Police Protection	105,232
Fire	124,101
911 Grants	282,713
Transportation	
Highway User Revenues	3,303,081
Highways and Streets	148,728
Parks, Recreation and Culture	122,498
Conservation of Natural Resources	88,733
Economic Development & Opportunity	62,264
Service Charges	
Zoning and Subdivision Fees	61,200
Public Safety Charges	
Protective Inspection Fees	52,418
Transportation Charges	
Other	57,566
Recreation Charges	26,220
Fines and Forfeitures	
Other	1,850
Total Revenue Earmarked for Duplicated Services	$5,203,689

2. *Calculate Total Revenue Earmarked For Non-duplicated Services*

Other Local Taxes	
Hotel and Motel	$5,209,996 [10]
Licenses and Permits	
Alcoholic Beverages	558,472
Amusement	116,847
Traders	73,359
Professional and Occupational	11,197
Marriage	20,430
Other	188,208
Intergovernmental Revenues -	
From Federal Government	
Federal Payments in Lieu of Taxes	5,311
Intergovernmental Revenues - From State	
Public Health	6,000
Public Safety	
Other	15,914
Transportation	
Transit	145,798
Social Services	
Other	1,363
Library	75,295
Other State Grants	17,360
Service Charges	
Sheriff Fees	76,270
Other	7,089
Public Safety Charges	
Corrections - local charges	444,072
Other	9,117
Health Charges	39,837
Library Charges	19,091
Public Service Enterprise Charges	
Liquor Dispensaries - Net Profit	318,312
Fines and Forfeitures	
Court Fines	104,398
Total Revenue Earmarked for Nonparallel Services	$7,463,736

10 This revenue is forwarded to municipal corporations, so it is proper to designate it as earmarked and unavailable to the county when calculating the amount of non-earmarked General Fund Revenue that is derived from the property tax. Note that the county's UFR lists the amount as $5,370,076 before the transfer of funds.

3. *Calculate Total Revenue Earmarked For Services*

Total Earmarked Revenue for Duplicated Services	$ 5,203,689
Total Earmarked Revenue for Non-duplicated Services	7,463,736
Total Earmarked Revenue	$12,667,425

C. Calculate Non-earmarked General Fund Revenue

Total General Fund Revenue	$70,444,698
Less Total Earmarked Revenue	12,667,425
Non-earmarked General Fund Revenue	$57,777,273

D. Calculate Percentage of Non-earmarked General Fund Revenue Derived from Property Taxes

Net Property Tax Revenue (from UFR)	$41,618,748
Non-earmarked General Fund Revenue	$57,777,273
Percentage of Non-earmarked GFR Derived from Property Taxes	72 %

E. Calculate the Amount of Duplicated Service Expenditure Funded by Property Taxes

Total Duplicated Service Expenditure	$8,600,544
Less Earmarked Revenue for Duplicated Services	5,203,689
Amount of Duplicated Services Funded by Non-earmarked Revenue	$3,396,855
Multiplied by Percentage Comprised of Property Tax Revenue	72 %
Amount of Parallel Service Expenditure Funded by Property Taxes	$2,445,736

F. Calculate Tax Differential

Duplicated Service Expenditure Funded by Property Taxes	$2,445,736
Divided by Non-city Tax Base/100	$9,814,296[11]
Tax Differential	$ 0.25

G. Calculate Reduction in County Tax Rate in City

Amount of Parallel Service Expenditure Funded by Property Taxes	$ 2,445,736
Divided by County Tax Base/100	$24,265,059.95
Reduction in City Tax Rate	$.10

H. Calculate Addition to Non-city Tax Rate Resulting From Rate Reduction in City

Reduction in County Tax Rate in City	$.10
City Tax Base/100	$14,450,764
County Revenue Shortfall	$ 1,445,076
Non-city Tax Base/100	$ 9,814,296
Additional Tax Rate for Non-city Property (Divide Shortfall by Tax base)	$.1472

I. Calculate Tax Rebate

Tax Differential Rate	$ 0.25
Multiplied by City Tax Base/100	$14,450,764
Total Tax Rebate	$ 3,612,691

11 The tax base used in this calculation subtracts Ocean City's tax base, as given in its UFR ($1,445,076,400), from the county's tax base, as given in the county's UFR ($2,426,505,995).

J. Calculate Addition to County Tax Rate to Pay for Tax Rebate to Ocean City

Total Tax Rebate	$ 3,612,691
Divided by County Tax base/100	$24,265,060
Addition to County Tax Rate	$.1488

Steps F through J need explanation. First, remember that the amount of duplicated services supported by tax revenue ($2,445,736) is an amount that is partially collected (generated) by property within the corporate limits of Ocean City. Furthermore, none of this expenditure is benefiting City taxpayers. Consequently, only non-city property is benefiting from this expenditure. For this reason, only non-city properties ideally should be taxed to collect this amount. If the $2,445,736 is collected only from these (non-city) properties, it results in a tax rate on these properties of $.25 above what is levied on city properties--the tax differential. Thus, this method concludes that there should exist a $.25 difference in the amount city property owners pay in county property tax and the amount all other county property owners pay, if a tax differential were granted.

To eliminate city properties from having to pay to support the $2,445,736, the county tax rate in the city must be reduced by $.10. This is the tax rate that generates $2,445,736 when levied county-wide (meaning on both non-city and city properties). Furthermore, when the $.10 tax rate reduction is applied in the city, the county will realize a revenue reduction. To eliminate any shortfall, the county tax rate on non-city properties must be raised by $.15.

An alternative to providing a tax differential is providing a tax rebate to Ocean City. The amount of the rebate would be $3,612,691, which is computed by multiplying the tax differential by the city tax base. Notice that the tax rebate in this instance is higher than the amount of duplicated service expenditure ($2,445,736). Why is that? To understand the answer, assume the rebate was computed by taking the reduction in the county tax rate in the city ($.10) and multiplying it by the city tax base ($1,445,076,400/100). The rebate would be $1,445,076. On the surface, this procedure seems fair because this $1.4 million is the city's portion of the $2,445,736 in duplicated service expenditure that the county collects but the city does not enjoy.

The problem occurs when the county raises revenue to pay for the rebate to the city. To pay for the $1.4 million rebate, the county must raise its tax rate county-wide by $.06. In doing this, however, city property owners would be contributing approximately 60 percent or $867,046 in extra county tax revenue to pay for the city's tax rebate. To compensate the city for the amount city property owners contributed to their own tax rebate ($867,046), the county would need to raise the tax rate again by $.036. Yet, in imposing the new tax, city property owners would be contributing $520,228 in tax revenue toward paying the city's second rebate of $867,046. If the county were to compensate the city for this extra $520,228, the tax rate county-wide would increase $ .0214. But in this case city property owners would contribute $309,815 in property tax to pay for the city's third rebate. This procedure continues until the limit is reached. If you sum all the rebate amounts produced under this method, the result is $3,612,691. The faster way to compute this total is the method used above: multiply the tax differential amount by the city tax base.

Having established the rebate, the county must raise taxes high enough to pay for it. Using the method explained above, where successive tax rebates require successive additions to the county tax rate, then when all of the "extra" tax rates are summed, the resulting tax rate is approximately $.15. This rate is intended to apply county-wide, levied on both city and non-city properties. Note that it is the same rate shown in Step H above--that is, the non-city tax rate when a tax differential is applied. *Consequently, non-city property owners will realize a $.15 tax increase regardless of whether a tax rebate or a tax differential is granted Ocean City.* In contrast, city property owners only realize an increase in their county tax rate when the city receives a tax rebate.

Besides a tax rebate or a tax differential, the county may wish to consider combining the two to give both a rebate and a tax differential. In this case, the county would raise the tax rate on (only) non-city properties by $.15; no change in the tax rate on city property would occur. As Step H indicates, this would generate $1.4 million. This money could then be rebated to Ocean City.

This third option is cheaper for the county to institute than the pure rebate option, while having the same cost consequences as the pure tax differential option. Unlike the pure tax differential option, where the county uses the extra tax revenue collected outside the city limits to fund a decrease in the tax rate applied to city properties, here the extra tax revenue is simply given to the city. From the city's perspective, this option is better for their property owners than the pure rebate option, which results in a $.15 increase in their property tax bill.

Incidentally, this third option of providing both a rebate and a tax differential has, to our knowledge, never been used in Maryland. Furthermore, the law is unclear as to whether this option is even available. The relevant state law that permits counties to grant tax setoffs defines a tax setoff as either tax differential or a tax rebate.[12] A strict interpretation of the language could hold that a tax setoff could not be both a rebate and a differential. Nonetheless, the law provides some room to negotiate certain issues involving tax setoffs. The county attorney should be consulted on this matters.

IGS Approach 2 - In General

In a nutshell, Approach 2 measures how much the county saves when Ocean City, instead of the county, provides the set of duplicated or parallel services identified in Approach 1. Approach 2 begins by examining municipal finances to determine the amount Ocean City spends on duplicated services. Approach 2 then shifts to measuring the amount of municipal revenue that funds duplicated services. These revenues are treated as if they would revert back to the county and be available to the county to fund duplicated services in the event Ocean City failed to provide these services to residents. When duplicated service costs and associated revenues are subtracted from one another, it results in the net expenditure for duplicated services. The net expenditure is a measure of the amount the county would have to raise in property tax revenue if Ocean City did not provide the set of duplicated services it now provides. Alternatively, the net expenditure can be viewed as the amount the county government saves by not having to provide these services in Ocean City. The net expenditure is then converted into a tax rate--the tax rate needed countywide to raise the amount of net expenditure. Approach 2 shows that tax rate as $.79. This is amount the county tax rate would need to increase if the

12 MD. Tax-Property Article, Section 6-305(a).

county, rather than Ocean City, provided the duplicated services within Ocean City. Approach 2 continues by showing that a tax setoff would require a decrease in the county tax rate by $.54 within Ocean City, while property outside Ocean City would be subject to the $.79 increase in the county tax rate. A tax rebate would require all county property (including properties located in Ocean City) to be subject to the $.79 increase, but Ocean City would receive $19.2 million.

Why is the differential so high compared to the result found under Approach 1? As explained above, Approach 2 measures a different type of setoff problem than is measured in IGS Approach 1. Here we measure the amount of service costs the county would assume if the county, rather than Ocean City, provided these services. Moreover, the cost of Ocean City's services are considerable, relative to the amount the county now spends on duplicated services.

Approach 2 Calculations

A. Calculate Municipal Expenditure for Duplicated Services

1. *Calculate Cost of Direct Services*

Like Approach 1, Approach 2 uses expenditure and revenue data reported in the UFR for the most recently concluded fiscal year, 1998. Unlike Approach 1 , which examines county data, Approach 2 examines municipal data to establish the tax setoff. The amounts reported below are amounts spent by Ocean City in FY 1998 for the set of duplicated services reported under

Approach 1. The amount spent on duplicated services totals $23,688,369.

Planning and Zoning	$ 281,395
Police	8,218,824
Fire and Rescue (EMS)	1,753,211
Volunteer Fire & Rescue	861,353
Protective Inspection (Fire Marshall, Bldg. Insp)	1,089,964
Animal Control	89,077
Other Protection (communication/impoundment)	1,089,964
Highways & Streets	2,392,803
Other Transportation Services (Admin.)	213,361
Parks	557,017
Recreation	1,142,942
Other Parks, Recreation, Culture (Beach, etc)	2,897,729
Economic Development	3,100,729
Total	$23,688,369

2. *Calculate Indirect Spending*

The above amount reflects only direct spending on duplicated services. Indirect spending on duplicated services for the city also must be included. The steps for determining indirect spending are outlined below and result in total indirect spending of $913,418. When this amount is added to the amount of direct spending, the total amount of spending on direct services equals $24,601,787 (see Step 3, below).

(a) Indirect Spending: Determine General Program Expenditure

General Program Expenditure is defined as total General Fund Expenditure, less the spending found under the categories of General Government in the Ocean City UFR. Note that IGS has taken every category of spending listed in the UFR as General Government except planning and zoning spending. Planning and zoning costs have already been captured as a duplicated service cost.

Total General Fund Expenditure	$34,918,544
Less Overhead Expenses	
General Government (except planning and zoning)	2,865,257
Total General Program Expenditure	$32,053,287

(b) Indirect Spending: Determine Percentage of General Program Expenditure Spent on Direct, Duplicated Service

Duplicated Service Expenditure	$ 23,688,369
General Program Expenditure	$ 32,053,287
Percentage of GPE Spent on Direct Duplicated Services	74 %

c) Indirect Spending: Identify General Government Expenditure Spent on Duplicated Services

Legislative	$ 613,338
Executive	273,846
Financial Administration	953,235
Legal	88,162
Personnel Administration	259,045
General Services	661,096
Total Supporting Expenditure	$2,848,722
Less Reimbursements Rec'd for Overhead	1,614,374 [13]
Total Supporting Expenditure	1,234,348
Multiplied by Percentage of GPE Spent on Duplicated Services	74%
Total Gen. Gov. Exp. Spent on Dup. Serv.	$ 913,418

(d) Indirect Spending: Identify Total Spending for Indirect Services

Supporting General Gov. Expenditure	$913,418
Total Spending for Indirect Services	$913,418

3. *Calculate Total Spending on Duplicated Services*

Total Direct Cost	$23, 688,369
Total Indirect Cost	913,418
Total Spending on Duplicated Services	$24,601,787

13 This category of spending appears as a Transfer of Other Funds on p.24 of the Town's UFR and relates to the receipt of reimbursements for these overhead expenses.

B. Determine the Amount of Municipal Revenues to be Returned to the County

Approach 2 also requires a determination of the amount of municipal revenue that would revert to the county in the event Ocean City no longer provided the duplicated services. The following is a list of the types and amounts of revenue that would be subject to the reversion. The amount totals $5,380,009.

Licenses & Permits	
Animal	$ 525
Building and Equipment	388,812
Intergovernmental Revenue - From Federal Gov.	
Police	55,037
Other - Emergency Mgt.	17,581
Intergovernmental Revenues - From State	
Public Safety	
Police	351,141
Transportation	
Highway User Revenue	707,909
Economic Development and Opportunity	165,000
Other State Grants - Beach Restoration	197,486
Intergovernmental Revenue - From County	
Public Safety	
Police	19,198
Other - EMS	200,776
Highways and Streets	44,237
Parks and Recreation	20,000
Economic Development - Tourism	120,000
Service Charges	
General Government Charges	
Zoning and Subdivision Fees	110,591
Public Safety Charges	
Special Police Services	7,043
Protective Inspection Fees	35,017
Other - EMS	367,806
Transportation Charges	
Highways and Streets	18,304
Parking Facilities	1,525,156
Recreation Charges	392,924
Fines and Forfeitures	
Other	
Dog Violations	288
Police Tow Fines	106,245
Fire Code Violations	5,215
False Alarm Fines	10,600
Municipal Infractions	18,990
Parking Fines	494,128
Total Revenue Returned to the County	$5,380,009

C. Calculate Net County Expenditure

At this point Approach 2 has calculated the cost of providing duplicated services within Ocean City and the revenue that would be available to the county to provide duplicated services within the town. The difference between the two amounts is the net expenditure; that is, the amount the county must raise in order to cover the cost of providing the duplicated services within the town. Net expenditure equals $19,221,778.

Expenditures for Duplicated Services	$24,601,789
Less Revenues Returned to the County	5,380,009
Net Expenditures	$19,221,778

D. Calculate County Tax Break in Ocean City and Tax Differential

The formula now turns to calculating the amount of county property tax needed to raise the amount of net expenditure. It totals a tax rate of $.79 levied on all county property, including city property.

Net Expenditure	$19,221,778
Divided by County Tax Base/100	24,265,060
Needed Tax Rate	$0.79

If the needed tax rate is applied only to city property, the amount collected would be $11,416,104.

Needed Tax Rate	$0.79
City Base/100	$14,450,764
	$11,416,104

Notice that city property owners would save $7,805,674 (the difference between $19,221,778 and $11,416,104) if the county provided the services and not Ocean City.

Under Approach 2 , Ocean City property is deemed to be overpaying for duplicated services by $7,805,674. Approach 2 requires this amount to be refunded Ocean City property owners in the form of a tax break. The amount computes to a reduction in the county property tax rate of $.54.

Over-Spending By City	$ 7,805,674
City Tax Base/100	14,450,764
Resulting Tax Rate	$ .54

If the tax break were granted, the county would realize a revenue shortfall of $7,805,674. To make up the difference, the county would need to levy an additional tax on property outside of Ocean City. This additional tax rate would equal $. 79.

Revenue Shortfall	$7,805,674
Divided by County Bas (less City Base)/100	$9,814,296
Resulting Tax rate	$. 79

Using the current tax rate as the beginning rate, Approach 2 requires the county tax rate in Ocean City to decrease by $.54, while property owners outside of Ocean City would have their tax rate increased by $.79. Together, the two rates provide a tax differential of $1.33.

D. Calculate Tax Rebate

An alternative to providing a tax break for property within Ocean City would be to provide a tax rebate--a lump sum distribution to the city government. This amount turns out to be $19,221,778, which is computed by multiplying the tax differential ($1.33) by the city tax base.

Tax Differential	$1.33
City Tax Base/100	$14,450,764
Tax Rebate	19,221,778

Notice that all county property owners (including those in Ocean City) would need to be levied an additional $.79 on their tax bills to make up for the loss of county revenue.

You might ask why $19,221,778 is used as a rebate rather than the $7,805,674 used above? The answer is the same as the one given in discussing the tax rebate in Approach 1 in Step I. In this case, if you begin with rebating $7,805,674, the county would need to levy an additional property tax of $.32 to pay for the rebate. But Ocean City property owners would be contributing $4.6 million dollars toward their own rebate. To compensate for this contribution, the county would rebate another $4.6 million, but Ocean City property owners, through the resulting property tax, would still be contributing $2.7 million towards this rebate. If this procedure is carried to it logical extreme, the total rebate will equal $19,221,778 and the tax rate applicable to all county property (even municipal) will equal $.79.

Conclusion

The results produced under IGS Approach 1 and IGS Approach 2 are meant to be the beginning points of discussion between county and municipal officials. Tax differentials are always cause for negotiations. No one but the parties can decide what might be a proper result under all the circumstances that prevail in a jurisdiction. The data presented here provide a list of services and a set of numbers to begin discussion. If the parties agree that this list of services and numerical data are more or less supportable, then the results produced here can acquire more meaning. The larger of the two reported results, for example, can be viewed as a ceiling--the maximum amount the county might consider as a tax setoff. The smaller of the two results might be viewed as a floor--the minimum amount the county might consider. Serious negotiations can then focus on amounts that lie between these two figures. Alternatively, the parties, after negotiations, may come to decisions that are not contemplated in these pages. In this case, this report must remain merely a catalyst for discussion.

The tax setoffs established here are high, but perhaps should not be entirely unexpected when three points are kept in mind. First, the town's tax base comprises 60 percent of Worcester County's tax base. Consequently, even the comparatively small amount of revenue that is at issue under Approach 1, if it had to be collected only from property outside of Ocean City (that is, from 40 percent of the tax base instead of 100 percent), results in a large ($.25) tax differential. When this large differential is applied to the large city base, it results in a sizable rebate amount. Second, Ocean City devotes a sizable amount of its budget to the types of services that are measured in tax differential approaches (duplicated services supported by tax dollars). Specifically, 76 percent of the town's budget is spent on duplicated services. Third, the amounts spent on these municipal services are considerable, in comparison to the amounts spent on similar services provided by the county. If the amount at issue under Approach 2 had to be collected county wide (rather than confined merely to the municipal tax base), it results in an expensive tax increase ($.79). Converting this rate into a tax setoff and a tax rebate create similarly expensive results.

While some may be tempted to claim that IGS reports that the county owes Ocean City a tax break, nothing can be further from the truth. As noted above, the entire matter of tax setoffs is very much a matter for negotiation. It is very much a policy for county government to decide. But the decision is made complicated because tax setoff formulas tend to be complicated, and negotiators can begin at a disadvantage; neither side may well understand what they have before them. The matter may be dismissed before a good look at the issues and the numbers is made.

Knowing this problem exists, the author has taken pains to explain the policy behind the numbers, why the formulas exist the way they do and how the formulas work step by step. Unfortunately, the formulas are still difficult. It may be helpful to bear in mind that at the heart of all the complexities, the formulas are focused on three things: the services that are duplicated, how much is spent on them, and the amount of property tax revenue that supports these services. The latter number, when divided into the tax base, becomes the tax setoff. It is a simple concept, but difficult to work.

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MARYLAND LEGISLATIVE COUNCIL COMMITTEE ON TAXATION AND FISCAL MATTERS

1970 REPORT

COUNTY PROPERTY TAX RATE DIFFERENTIAL FOR MUNICIPAL RESIDENTS

Item 181 and 207

House Bill 1473 introduced by Delegates Werner H. Fornos, Marvin H. Anderson, and Aris T. Allen of Anne Arundel County, and Delegate Francis J. Santangelo of Prince George's County would have required county governments to levy a tax on property located within municipal corporations which reflected only those services the county provided to municipal residents and not to reflect expenditures for services (such as police and fire protection, street maintenance and lighting, refuse collection, code enforcement, planning and zoning, parks and recreation, and utilities) provided solely to residents outside of municipal corporations. The bill provided for county and municipal approval of any tax rate differential and in the event of disagreement the matter would be submitted for binding arbitration. The legislation received favorable consideration by the Committee on Constitution and Administrative Law and was reported to the floor. After amendments were offered exempting various counties from the effect of the bill, it was re-referred to the Committee and subsequently sent to the Legislative Council.

Item 207 results from Senate Bill 150 introduced by Senator Edward T. Conroy of Prince George's County. This bill would have enabled the Prince George's County Commissioners to grant a partial tax exemption for property located in municipal corporations if the municipality offers services such as street lighting, police protection, street maintenance and refuse collection. The exemption could not exceed twenty per cent of the assessment. The bill did not receive favorable consideration by the county's senatorial delegation and was referred to the Legislative Council.

Prior Legislative Action

State and local fiscal relationships have been subject to almost continuous study by legislative committees, special commissions, governmental agencies and private organizations. Some of the studies have dealt with specific governmental programs such as education, health or welfare while others have covered the complete spectrum of fiscal relationships. As to the subject of county-municipal fiscal relationships, four previous studies should be mentioned: the Maryland Commission on the Distribution of Tax Revenues; the 1960 Report of the Committee on Taxation and Fiscal Matters; the Maryland Commission on City-County Fiscal Relationships; and the Commission on State and County Finance and subsequent legislative study committees.

1. The Maryland Commission on the Distribution of Tax Revenues under the Chairmanship of Judge Joseph Sherbow established the State sharing of tax revenues with local governments and the distribution between counties and municipal corporations that exists today. The Commission's 1946 report recommended that the following taxes be shared:

(a) State Income Tax—Distribute .68% of ordinary income and 1.70% of unearned income to the counties with the municipal corporation receiving one-half of receipts attributable to municipal residents (This was changed in 1967 to authorize a county income tax with the municipal corporations to receive an amount of the county income tax equivalent to .37% of the taxable income of municipal residents).

(b) Racing Revenues—Distribute one-half of the mile track receipts, and one-quarter of the half-mile track receipts to the counties on a population basis and within the county between the county and the municipal corporations on a population basis.

(c) Gasoline Tax—Distribute to county and municipal corporations based on road mileage (This was subsequently changed in 1968 to provide a distribution in part based on road mileage and in part on vehicle registration).

(d) Business Licenses—Distribute proceeds, less a collection fee, to the municipal corporation or to the county where the business is located.

(e) Recordation Tax—Distribute proceeds to county where collected.

(f) Admissions Tax—Distribute proceeds, less collection costs, to the municipal corporations, or to the county where the tax was collected.

(g) Corporation Franchise Tax—Continue distribution of one-half of the proceeds to the counties and municipal corporations where the corporation is located with one-half of the municipal share being sent to the county.

2. During 1960 the Committee on Taxation and Fiscal Matters made an extensive study of State-local fiscal relations. The Committee concluded even with inequities as to means of distributions that the State shared taxes "may offer an acceptable means of aiding local government". It recommended that the State cigarette tax be increased and that half of this tax be returned to the counties and Baltimore City. The Committee also noted the creation of the Commission on City-County Fiscal Relationships and deferred any recommendations that were in the scope of this Commission's study.

3. The Commission on City-County Fiscal Relationships was created pursuant to Joint Resolution 26 of the 1959 General Assembly. This resolution resulted from a study by the Prince George's County Municipal Association that called for a property tax rate differential for municipal residents. The Commission after a two year study of this subject did not recommend any specific approach to county-city fiscal relationships but did offer a series of alternatives and suggested that each county and the municipal corporations within the county establish a commission to work out the solutions on a county-by-county basis. The Commission also concluded that any adjustment in the sharing of State tax revenues could not be made without a broader review of the fiscal relationships between the State, the counties, and the municipalities.

4. The report of the Commission on State and County Finance, initially chaired by John S. Shriver and subsequently by Dr. Paul D. Cooper, was submitted in January of 1965 following a three year study of the overall tax structure in the State as well as the fiscal relationships between the State and its local governments. The Commission's recommendations called for an overhaul of the tax structure as well as major innovations in the fiscal relationship. Insofar as the county-municipal relationship was concerned the report called for the existing State shared revenues (other than motor vehicle revenues) to be discontinued and to be replaced by a new State grant equalized on an effort and ability index and suggested that the distribution between counties and towns relate to the burden of government conducted by each unit. The Commission's recommendations were subsequently reviewed by a special legislative committee under the

Chairmanship of Senator Harry R. Hughes. This Committee supported the principles of eliminating the shared taxes and utilizing an equalized grant. It further recommended that the distribution of the grant be based on the property tax burden and further that the amount of property tax utilized for county roads realized from the assessable base in a municipal corporation be deducted from the county tax burden and included in the municipal tax burden. The Committee's program was not approved by the 1966 General Assembly. The 1967 session of the General Assembly adopted a tax revision program which continued the municipal share of the county income tax at the same rate as the municipal share of the State income tax and which provided a State grant for police protection that was based on expenditures and distributed among the county and the municipal corporation in relation to expenditures.

Existing County-Municipal Fiscal Relationships

There are a number of practices currently found in Maryland regarding county-municipal fiscal relationships. These are:

1. County Property Tax Rate Differential—In Harford County residents of the municipal corporations in 1971 paid a property tax of $2.57 whereas the non-municipal residents paid $2.77. The $.20 differential reflects the expenditures for county roads and street lighting. This differential is stipulated by local law.

Montgomery and Prince George's counties utilize special ad valorem taxes for certain services and do not impose these taxes if the service is not offered to the residents of the municipal corporation. Prince George's County use to grant a $.02 differential on property within Takoma Park as the City provided its own library services.

Local laws were enacted for Cecil County in 1969 and Allegany County in 1970 that authorized the county to impose a differential property tax rate for municipal residents. Anne Arundel County provided a differential for two fiscal years but discontinued it in 1968.

2. Reimbursement of Portion of County Taxes Collected in Municipal Corporations—Caroline, Carroll and Queen Anne's counties reimburse the municipal corporations for a portion of the county taxes collected on the municipal assessed valuation. In Caroline County, this amounts to 6% of the county tax, in Carroll County it is based on one-half of the county road tax, and in Queen Anne's County, it is equivalent to $.10 per hundred dollars of assessed valuation. These funds must be used by the municipal corporations for highway purposes and for the most part are mandated by local law. In Garrett County the municipal corporations share is a portion of the proceeds of the county tax on natural gas.

3. Fixed County Grant—A number of counties make fixed grants to municipal corporations. In Allegany, Dorchester and Somerset counties the grants are mandated by local law and are to be utilized for street maintenance. Garrett County makes a similar grant to one municipal corporation. Montgomery County makes a grant to Takoma Park to reflect what the county would spend to provide police services and public libraries within the corporate limits. Anne Arundel, Prince George's, Talbot, and Wicomico Counties make specific grants to the county seat for providing services to county facilities.

4. Proceeds of County Revenue Operations—Harford, Kent, Somerset, and Worcester Counties pay a portion of the proceeds from the profits of county liquor dispensaries to the municipal corporations.

5. County Providing Municipal Services—A non-cash type of payment is the furnishing of a service to the municipality by the county on a no-charge basis. Examples would be staff assistance for planning and zoning commissions and code enforcement programs.

6. State Mandated Grants—The State has mandated that counties make two grants to municipal corporations. The first is an amount equivalent to .37% of the taxable income of the residents of the municipality and the second is a grant equivalent to the amount of the tax on bank stock that the municipality received in the 1968 fiscal year.

The practices of sharing county property tax revenues and the fixed county grants have their roots in local law and for the most part are designed to offset any inequities arising from the maintenance of county roads. The proceeds of the county revenue operations is limited solely to county liquor dispensaries. The mandated State grants were to effect a "save-harmless" consideration in State tax revision programs in 1967 and 1968. The provision of a municipal service by the county on a no-charge basis is limited to a few program areas. The practice of the property tax rate differential needs further examination.

Property Tax Rate Differential

The premise of a county property tax differential for municipal residents is that some county services are provided solely to non-municipal residents but that the funds to pay for them are provided by all county residents including those of municipal corporations. A lower county property tax for residents of municipal corporations would prevent any "double taxation". The differential benefits the taxpayer directly and is visible to him whereas county grants to municipalities while benefiting the municipal residents do not have the same degree of visibility and benefit the municipal taxpayer through a lower municipal tax rate.

If the premise of the property tax differential is accepted as public policy, the implementation of this premise raises a number of questions as how to calculate the costs of services not provided to municipal residents and how to determine what revenues are involved.

Determining the costs of services not provided to municipal residents raises the following points:

1. Expenditures for street construction and maintenance and street lighting are easily determined, for with a few isolated instances, all streets within municipal corporations are the responsibility of the municipal government or the State Roads Commission. County expenditures for roads are almost entirely spent on facilities outside the municipal corporations.

2. Municipal expenditures for police protection, fire protection, and parks and recreation are in some instances supplemental to the county services and not in lieu of county services, or there can be a combination of supplementation and substitution. The mere fact that a county's park or recreation program is not within the corporate limits of a municipality but rather is adjacent to a municipal corporation does not mean that the municipal residents do not benefit from this county service. A county sheriff's office may provide some police protection within a municipal corporation but a more intensive program outside the corporate limits.

3. The county program of refuse disposal may be open to all residents on the same basis whereas the municipal program of collection and disposal reflects a more comprehensive program. Code enforcement may present similar situations.

4. The true cost of a particular county operation may be more than the appropriation for the program because certain costs such as retirement are not included in the program appropriation, nor does the program appropriation reflect the cost of administrative services such as accounting, auditing, personnel, or other general support services. Allocation of these costs can be made but only in terms of ratios based on other known factors.

There are also a number of questions concerning allocation of revenues.

1. Revenues directly relating to a non-municipal expenditure should be used to offset the costs of this expenditure borne by the property tax. Examples would be fees for building permits, recreation programs, or public works agreements and State shared highway taxes or the State grant for police protection.

2. If the municipal corporation receives certain revenues from the State or the county for use of municipal residents then the county should be able to apply an equivalent share of these revenues to services that benefit solely the county residents outside municipal corporations. Such revenues would include State shared taxes such as admissions, racing, licenses, and one-half of the corporation franchise tax; a share of the county income tax equivalent to .37% of the net taxable income of non-municipal residents; a share of county funds equivalent to that portion of the tax on bank shares which was retained for county purposes; and any existing grants or differentials provided by local law or local practice.

Testimony by Local Officials

Representatives of the Maryland Association of Counties, the Maryland Municipal League and the City of Annapolis appeared before the Committee. The counties' position was that the determination as to what services or to what extent services should be provided countywide and the use of a tax rate differential, if any, can only be made at the local level by the local officials and cannot be mandated by State law. It was also indicated that the Task Force on County-City Relationships established by the two State organizations would be a useful vehicle to examine this problem and that this group should be reactivated.

The municipalities strongly supported the concept of a property tax rate differential for municipal residents as outlined in House Bill 1473. Representatives of Annapolis outlined a number of specific services which are provided by Anne Arundel County solely to residents outside the corporate limits but for which the citizens of Annapolis provide a portion of the taxes. These included police, fire, public works, recreation, planning and zoning and code enforcement and a possible differential of $.70 was cited.

Analysis by Department of Fiscal Services

At the Committee's direction the Department of Fiscal Services prepared an analysis of the county budgets for the 1971 fiscal year and calculated the differentials that would be afforded the municipal residents. In preparing this analysis the Department made the following assumptions.

1. Municipal expenditures for a similar service being provided by the county were considered as a substitution of the county service unless the expenditures by the municipal corporation were minimal. The specific assumptions for each county are outlined in Exhibit A.

2. The portion of the county sheriff's office used for police protection is the ratio used in determining the amount of State aid for police protection. These are indicated in Exhibit A.

3. A portion of the employee benefit such as retirement and social security were allocated to the county-only program expenditures when this was possible. The allocations are indicated in Exhibit A.

4. A portion of the administrative costs such as executive and legislative direction, finances, law, personnel, purchasing and building maintenance were allocated to the county-only program expenditures on the ratio of the county-only program expenditures to the total expenditures. These allocations are indicated in Exhibit A.

5. Revenues directly attributable to county-only program expenditures were utilized to offset these expenditures.

6. When a portion of non-property tax revenues were distributed to municipal corporations, an equivalent portion was utilized to offset the cost of county-only program expenditures. For all counties these included (1) admissions tax (2) one-half of franchise tax (3) horse racing revenues (4) traders licenses (5) tax on bank stock and (6) .37 per cent of the taxable income of residents outside municipal corporations. In certain counties adjustments were made for local provisions. These adjustments are indicated in Exhibit A.

The results of the analysis were:

County	1971 Tax Rate	1971 Tax Rate Differential	
Allegany	2.87	County	3.05
		Cumberland	2.69
		Frostburg	2.71
		Westernport	2.71
		Other Municipalities	2.80
Anne Arundel	3.00	County	3.08
		Annapolis	2.43
Calvert	2.77	County	2.76
		Municipalities	2.87
Caroline	2.45	County	2.41
		Municipalities	2.52
Carroll	2.30	County	2.27
		Municipalities	2.38
Cecil	2.72	County	2.71
		Municipalities	2.75
Charles	3.05	County	3.05
		Municipalities	3.05
Dorchester	2.69	County	2.74
		Cambridge	2.59
		Other Municipalities	2.74
Frederick	2.54	County	2.53
		Municipalities	2.56
Garrett	2.25	County	2.44
		Oakland	1.30
		Other Municipalities	1.32

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Rate Differential

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	2.71
es	2.75
	3.05
es	3.05
	2.74
	2.59
ipalities	2.74
	2.53
es	2.56
	2.44

County	1971 Tax Rate	1971 Tax Rate Differential	
Harford	2.77	County	2.78
Municipalities	2.57	Municipalities	2.55
Kent	2.30	County	2.27
		Chestertown	2.38
		Other Municipalities	2.40
Montgomery	2.63	County	2.65
		Municipalities	2.55
Prince George's	3.42	County	3.47
		Greenbelt, Hyattsville, Laurel, Mount Rainier, Takoma Park	3.05
		District Heights, Brentwood, Riverdale, Seat Pleasant, Bladensburg, Cheverly	3.24
		Other Municipalities	3.45
Queen Anne's	2.38	County	2.37
		Centreville	2.39
		Other Municipalities	2.40
St. Mary's	2.30	County	2.30
		Leonardtown	2.34
Somerset	2.20	County	2.17
		Municipalities	2.33
Talbot	2.25	County	2.25
		Easton	2.24
		Other Municipalities	2.26
Washington	2.40	County	2.56
		Hagerstown	2.21
		Hancock & Williamsport	2.22
		Other Municipalities	2.28
Wicomico	2.08	County	2.15
		Salisbury	1.98
		Delmar	2.12
		Other Municipalities	2.15
Worcester	2.00	County	2.08
		Municipalities	1.96

In terms of Statewide application the following occurred:

7 Counties would have levied a lower property tax rate for all municipal residents (Allegany, Anne Arundel, Garrett, Harford, Montgomery, Washington and Worcester).

4 Counties would have levied a lower property tax rate for some municipal residents and a higher property tax rate for other municipal residents (Dorchester, Prince George's, Talbot and Wicomico).

9 Counties would have levied a higher property tax rate for all municipal residents (Calvert, Caroline, Carroll, Cecil, Frederick, Kent, Queen

1 County would have levied the same property tax rate for municipal residents (Charles).

The following reductions would have been afforded the residents in 59 municipalities and 8 special taxing areas.

Municipality and County	Reduction From 1971 Rate
Oakland (Garrett)	$.95
Accident, Deer Park, Friendsville, Grantsville, Kitzmiller, Loch Lynn Heights, Mountain Lake Park (Garrett)	.93
Annapolis (Anne Arundel)	.57
Greenbelt, Hyattsville, Laurel, Mount Rainier, Takoma Park (Prince George's)	.37
Aberdeen, Bel Air, Havre de Grace (Harford)	.22[1]
Hagerstown (Washington)	.19
Hancock, Williamsport (Washington)	.18
Bladensburg, Brentwood, Cheverly, District Heights, Riverdale, Seat Pleasant (Prince George's)	.18

Municipality and County	Reduction From 1971 Rate
Cumberland (Allegany)	$.18
Frostburg, Westernport (Allegany)	.16
Boonsboro, Clear Spring, Funkstown, Keedysville, Sharpsburg, Smithsburg (Washington)	.12
Salisbury (Wicomico)	.10
Cambridge (Dorchester)	.10
Barnesville, Brookeville, Chevy Chase, Section 4, Chevy Chase Village, Gaithersburg, Garrett Park, Glen Echo, Kensington, Laytonsville, Poolesville, Rockville, Somerset, Takoma Park, Washington Grove and special taxing areas of Martin's—Addition, Chevy Chase, Section 3, Chevy Chase Section 5, Chevy Chase View Drummond, Friendship Heights, North Chevy Chase, Oakmont (Montgomery)	.08
Barton, Lonaconing, Luke, Midland (Allegany)	.07
Berlin, Ocean City, Pocomoke City, Snow Hill (Worcester)	.04
Easton (Talbot)	.01

The following increases would have been levied against residents in 88 municipalities:

Municipality and County	Increase Over 1971 Rate
Crisfield and Princess Anne (Somerset)	$.13
Chesapeake Beach and North Beach (Calvert)	.10
Betterton, Galena, Millington, Rock Hall (Kent)	.10
Chestertown (Kent)	.08

[1] Municipalities in Harford County currently receive a $.20 differential.

Municipality and County	Increase Over 1971 Rate
Hampstead, Manchester, Mt. Airy, New Windsor, Sykesville, Taneytown, Union Bridge, Westminster (Carroll)	.08
Denton, Federalsburg, Goldsboro, Greensboro, Henderson, Hillsboro, Marydel, Preston, Ridgely, Templeville (Caroline)	.07
Fruitland, Hebron, Mardella Springs, Pittsville, Sharpstown, Willards (Wicomico)	.07
Brookview, Church Creek, East New Market, Eldorado, Galestown, Hurlock, Secretary, Vienna (Dorchester)	.05
Leonardtown (St. Mary's)	.04
Delmar (Wicomico)	.04
Cecilton, Charlestown, Chesapeake City, Elkton, North East, Perryville, Port Deposit, Rising Sun (Cecil)	.03
Berwyn Heights, Bowie, Capitol Heights, College Park, Colmar Manor, Cottage City, Eagle Harbor, Edmonston, Fairmont Heights, Forest Heights, Glenarden, Landover Hills, Morningside, New Carrollton, North Brentwood, University Park, Upper Marlboro (Prince George's)	.03
Brunswick, Burkittsville, Emmitsburg, Frederick, Middletown, Myersville, New Market, Rosemont, Thurmont, Walkersville, Woodsboro (Frederick)	.02
Barclay, Church Hill, Queen Anne, Queenstown, Sudlersville (Queen Anne's)	.02
Centreville (Queen Anne's)	.01
Oxford, St. Michael's, Trappe (Talbot)	.01

In Charles County there would have been no change for municipal residents in Indian Head and La Plata.

Ten counties would have increased tax rates for residents outside of the municipal corporate limits:

Garrett	$.19
Allegany	.18
Washington	.16
Anne Arundel	.08
Worcester	.08
Wicomico	.07
Dorchester	.05
Prince George's	.05
Montgomery	.02
Harford	.01

In eight counties property tax rates for the area outside of the municipalities would have decreased:

Caroline	$.04
Carroll	.03
Kent	.03
Somerset	.03
Calvert	.01
Cecil	.01
Frederick	.01
Queen Anne's	.01

In Charles, St. Mary's and Talbot counties there would have been no change in the tax rate on property outside the boundaries of municipal corporations.

In general those municipalities with the differential are located in counties which furnish a number of municipal-type services or a level of municipal-type services that requires substantial amounts of local property tax revenues. Those municipalities which will be subject to increased tax rates are located in counties that provide only a few services not on a county-wide basis or the cost of non-county wide services are offset by non-property tax revenues. This latter situation also is indicative of the fact that the existing distribution of State shared taxes or the State mandated sharing of revenues with a municipal corporation does not reflect the extent of government services provided by the municipal corporation.

Attachment:
Exhibit A: Assumption Utilized in Analysis of Property Tax Differential for Municipal Residents

EXHIBIT A

Assumptions Utilized in Analysis of

County Property Tax Differential For Municipal Residents

Allegany County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Planning and zoning (Cumberland only)
   c. Landfill, police (Cumberland, Frostburg and Westernport only)
2. Percentage of Sheriff's office applicable to police: 60%
3. Adjustment for employee benefits: $74,351 (25%)
4. Allocation of administrative expense: 11.8%
5. Local revenue adjustment:
   a. $14,464 for highway maintenance to reflect mandated grant to municipalities of $19,174 based on county-municipal 1960 population ratio of 43%-57%

Anne Arundel County

1. Services not provided within municipal corporations:
   a. Public works
   b. Police

Finally the Committee notes in several counties and municipal corporations that sufficient information on which to calculate a property tax rate differential is not readily available through existing budget documents. This lack of information limits the ability to make this type of calculation.

In view of the above findings the Committee on Taxation and Fiscal Matters does not believe that legislation mandating a property tax rate differential should be considered at this time. It strongly urges that the governing body of each county initiate a meeting with the officials of the municipal corporations within the county to discuss county-municipal fiscal relationships with the goal of eliminating any double taxation of municipal residents while at the same time determining the most economical and efficient means for providing local services. The Committee also urges the Maryland Association of Counties and the Maryland Municipal League to reactivate the Task Force on County-City Relationships and to provide the leadership under which solutions to the question of county-municipal fiscal relationship can be developed at the local level.

ADDENDUM

(Insert on Page 330)

COUNTY PROPERTY TAX RATE DIFFERENTIAL FOR MUNICIPAL RESIDENTS

(Items 181 and 207)

Conclusions and Recommendations

The Committee on Taxation and Fiscal Matters finds that there are instances in Maryland where the residents of municipal corporations are paying county taxes for services that are not provided to them by the county and for which they also must pay municipal taxes for the same service. The most easily identified service is highway maintenance. Other services that can be subject to double taxation are police protection, parks, recreation, refuse disposal, planning and zoning, and mosquito control.

The Committee further finds that the existing allocation of State-shared taxes among counties and municipal corporations and the existing requirements for the counties to make certain revenues available to municipal corporations have created instances where municipal corporations are receiving a disproportionate share of revenues for the type of services provided. Consequently, while some municipal residents are being subject to double taxation, some municipal residents are receiving double benefit from the allocation of non-property tax revenues. In such instances the residents outside of municipal corporations are paying a higher property tax rate than they should be paying.

The Committee does not believe that a state mandated property tax-rate differential for municipal residents is warranted at this time. It believes that while State action could correct some inequities it might also tend to promote the uneconomical or ineffective providing of services by small units of government and limit the flexibility of transferring or merging governmental services at the local level. The Committee also believes because of the variation in the types of governmental services provided by the local governments that determination of the countywide nature of a service can only be made at the county level and not at the state level.

The Committee further believes that the existing patterns of county-municipal fiscal relationships such as the property tax differential in Harford County; the reimbursement of a portion of county property taxes in Caroline, Carroll and Queen Anne's Counties and a portion of the natural gas tax in Garrett County; the fixed grant in Allegany, Dorchester, Garrett, Montgomery and Somerset Counties; the allocation of proceeds of liquor dispensaries in Harford, Kent, Somerset, and Worcester Counties; and the providing of municipal services by the county; represent an awareness of the problems involved in these relationships and some attempt to solve them. The Committee notes in Anne Arundel County where the question of a property tax rate differential has been the subject of considerable discussion by both public officials and private citizens that the County Council of Anne Arundel County and the Mayor and Aldermen of the City of Annapolis have enacted similar resolutions calling for a study of county-city fiscal relationships by a management and fiscal consultant. The Committee hopes that both units of government take prompt action to initiate this study.

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c. Fire (less communications)
d. Inspection (other than electrical)
e. Planning and zoning
f. Recreation

2. Percentage of Sheriff's office applicable to police: none
3. Adjustment for employee benefits: included in county budget
4. Allocation of administrative expense: 21%
5. Local revenue adjustment:
   a. Alcoholic beverage tax—one-sixth distributed to municipal corporations by law
   b. Alcoholic beverage licenses—license fees distributed to municipal corporation where collected
   c. $1,315,150 to reflect grant of $150,000 to Annapolis based on 1960 county municipal population ratio of 89%-11%

Calvert County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Mosquito control
   c. Waste collection
   d. Police
2. Percentage of Sheriff's office applicable to police: 50%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 1.5%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—one-half of license fees distributed to municipal corporation where collected

Caroline County

1. Services not provided within municipal corporations:
   a. Police
   b. Landfill
   c. Highway maintenance—no expenditure other than State-shared revenues
2. Percentage of Sheriff's office applicable to police: 50%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 1.1%
5. Local revenue adjustment: none

Carroll County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfill
   c. Police
2. Percentage of Sheriff's office applicable to police: 25%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 1.9%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—one-half to municipal corporation where collected
   b. One-half of expenditure for highway maintenance deleted to reflect one-half of county road tax allocated to municipal corporations.

Cecil County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfill
   c. Police
   d. Mosquito control
   e. Planning and zoning
2. Percentage of Sheriff's office applicable to police: 33%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 5.3%
5. Local revenue adjustment: none

Charles County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Sanitary commission
   c. Parks and recreation
   d. Police (La Plata only)
   e. Planning and zoning (La Plata only)
2. Percentage of Sheriff's office applicable to police: 90%
3. Adjustment for employee benefits: Included in budget
4. Allocation of administrative expense: 5%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—license fees distributed to municipal corporation where collected

Dorchester County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Police (Cambridge only)
   c. Landfill (Cambridge only)
   d. Parks and recreation (Cambridge only)
   e. Planning and zoning (Cambridge only)
2. Percentage of Sheriff's office applicable to police: 65%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 5.3%
5. Local revenue adjustment:
   a. $28,750 for highway maintenance to reflect mandated grant to municipal corporations of $28,750 based on 1960 county-municipal population ratio of 50%-50%

Frederick County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfills
   c. Police
   d. Parks and recreation
   e. Planning and zoning
2. Percentage of Sheriff's office applicable to police: 40%
3. Adjustment for employee benefits: $52,874 (40%)

4. Allocation of administrative expense: 11%
5. Local revenue adjustment:
   a. Alcoholic beverage license—one-half to municipal corporation where collected

Garrett County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Police (Oakland only)
   c. Sanitary Commission
2. Percentage of Sheriff's office applicable to police: 60%
3. Adjustment for employee benefits: None—Roads Board
4. Allocation of administrative expense: 28%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—one-half to municipal corporation where collected
   b. No adjustment for grant of $500 to Town of Friendsville

Harford County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Police
   c. Planning and zoning
2. Percentage of Sheriff's office applicable to police: 90%
3. Adjustment for employee benefits: Included in budget
4. Allocation of administrative expense: 13.7%
5. Local revenue adjustment:
   a. Liquor Dispensaries—one-half of proceeds to municipal corporations

Kent County

1. Services not provided within municipal corporations:
   a. Planning and zoning
   b. Landfill
   c. Police (Chestertown only)
   d. Mosquito control
2. Percentage of Sheriff's office applicable to police: 40%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 2%
5. Local revenue adjustment:
   a. Liquor dispensaries—one-half of proceeds to municipal corporations

Montgomery County

1. Services not provided within municipal corporations:
   a. Public Works
2. Percentage of Sheriff's office applicable to police: none
3. Adjustment for employee benefits: $632,834
4. Allocation of administrative expense: 12.8%
5. Local revenue adjustment:
   a. Adjustments already made for police protection and library services in Takoma Park

to municipal cor-

l grant to municipal
pal population ratio

Prince George's County

1. Services not provided within municipal corporations:
   a. Public works
   b. Police—(Greenbelt, Hyattsville, Laurel Mount Rainier and Takoma Park—100%; Bladensburg, Brentwood, Cheverly, District Heights, Riverdale, Seat Pleasant—50%)
2. Percentage of Sheriff's office applicable to police: 25%
3. Adjustment for employee benefits: $1,408,000
4. Allocation of administrative expense: 12.4%
5. Local revenue adjustment: none

Queen Anne's County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfill
   c. Police (Centreville only)
   d. Planning and Zoning
2. Percentage of Sheriff's office applicable to police: 50%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 3%
5. Local revenue adjustment: none

St. Mary's County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Mosquito control
   c. Police
2. Percentage of Sheriff's office applicable to police: 90%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 20.5%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—license fee distributed to municipal corporation where collected

Somerset County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Police
   c. Sanitary commission
2. Percentage of Sheriff's office applicable to police: 20%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 4.3%
5. Local revenue adjustment:
   a. Liquor dispensaries—one-quarter of proceeds allocated to municipal corporation which is equivalent to population ratio.
   b. Alcoholic beverage licenses—license fees distributed to municipal corporation where collected
   c. $4,800 for mandated highway grant to municipal corporations based on 1960 county-municipal population ratio of 75%—25%

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Talbot County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfill
   c. Planning and Zoning
   d. Police (Easton only)
2. Percentage of Sheriff's office applicable to police: 30%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 13%
5. Local revenue adjustment: none

Washington County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Sanitary commission
   c. Police (Hagerstown, Hancock & Williamsport only)
   d. Planning and Zoning (Hagerstown only)
   e. Parks and recreation (Hagerstown, Hancock and Williamsport only)
2. Percentage of Sheriff's office applicable to police: 65%
3. Adjustment for employee benefits: none
4. Allocation for administrative expense: 6.8%
5. Local revenue adjustment:
   a. Alcoholic beverage licenses—license fees distributed to municipal corporation where collected

Wicomico County

1. Services not provided within municipal corporations:
   a. Public works
   b. Landfill
   c. Mosquito control
   d. Recreation (Salisbury only)
   e. Police (Delmar & Salisbury only)
   f. Planning & Zoning (Salisbury only)
2. Percentage of Sheriff's office applicable to police: 80%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 19%
5. Local revenue adjustment: none

Worcester County

1. Services not provided within municipal corporations:
   a. Highway maintenance
   b. Landfill
   c. Mosquito control
   d. Recreation
   e. Police
   f. Planning and zoning
   g. Sanitary Commission
2. Percentage of Sheriff's office applicable to police: 50%
3. Adjustment for employee benefits: none
4. Allocation of administrative expense: 5%
5. Local revenue adjustment:
   a. Liquor dispensaries—one-half of proceeds to municipal corporations

Chairmanship of Senator Harry R. Hughes. This Committee supported the principles of eliminating the shared taxes and utilizing an equalized grant. It further recommended that the distribution of the grant be based on the property tax burden and further that the amount of property tax utilized for county roads realized from the assessable base in a municipal corporation be deducted from the county tax burden and included in the municipal tax burden. The Committee's program was not approved by the 1966 General Assembly. The 1967 session of the General Assembly adopted a tax revision program which continued the municipal share of the county income tax at the same rate as the municipal share of the State income tax and which provided a State grant for police protection that was based on expenditures and distributed among the county and the municipal corporation in relation to expenditures.

Existing County-Municipal Fiscal Relationships

There are a number of practices currently found in Maryland regarding county-municipal fiscal relationships. These are:

1. County Property Tax Rate Differential—In Harford County residents of the municipal corporations in 1971 paid a property tax of $2.57 whereas the non-municipal residents paid $2.77. The $.20 differential reflects the expenditures for county roads and street lighting. This differential is stipulated by local law.

Montgomery and Prince George's counties utilize special ad valorem taxes for certain services and do not impose these taxes if the service is not offered to the residents of the municipal corporation. Prince George's County use to grant a $.02 differential on property within Takoma Park as the City provided its own library services.

Local laws were enacted for Cecil County in 1969 and Allegany County in 1970 that authorized the county to impose a differential property tax rate for municipal residents. Anne Arundel County provided a differential for two fiscal years but discontinued it in 1968.

2. Reimbursement of Portion of County Taxes Collected in Municipal Corporations—Caroline, Carroll and Queen Anne's counties reimburse the municipal corporations for a portion of the county taxes collected on the municipal assessed valuation. In Caroline County, this amounts to 6% of the county tax, in Carroll County it is based on one-half of the county road tax, and in Queen Anne's County, it is equivalent to $.10 per hundred dollars of assessed valuation. These funds must be used by the municipal corporations for highway purposes and for the most part are mandated by local law. In Garrett County the municipal corporations share is a portion of the proceeds of the county tax on natural gas.

3. Fixed County Grant—A number of counties make fixed grants to municipal corporations. In Allegany, Dorchester and Somerset counties the grants are mandated by local law and are to be utilized for street maintenance. Garrett County makes a similar grant to one municipal corporation. Montgomery County makes a grant to Takoma Park to reflect what the county would spend to provide police services and public libraries within the corporate limits. Anne Arundel, Prince George's, Talbot, and Wicomico Counties make specific grants to the county seat for providing services to county facilities.

4. Proceeds of County Revenue Operations—Harford, Kent, Somerset, and Worcester Counties pay a portion of the proceeds from the profits of county liquor dispensaries to the municipal corporations.

ELIMINATING DOUBLE TAXATION:

THE

TAX SET-OFF

HANDBOOK

MARYLAND MUNICIPAL LEAGUE

FEBRUARY 1984

PRICE:

$6.00 non-members
$3.00 members

CONTENTS

INTRODUCTION

A tax set-off system is a tax policy which recognizes the value of municipal services to the residents of Maryland's 154 cities and towns through a lower county tax rate or a tax rebate to the municipality.

In Maryland, unlike some other states, an incorporated municipality is not a separate political entity, but a part of the county in which it is located. Thus, the municipal resident pays both the city property tax and the county property tax.

For their city tax dollar, citizens may receive police and fire protection, road maintenance and repair, planning and zoning services, parks and recreation facilities, solid waste disposal and a variety of other services which vary from town to town because of size, location, law, or tradition.

For their county property tax dollar, municipal residents receive a variety of county wide services received by citizens inside and outside the city limits. These include education, public health, election administration and other services provided at the county level for all residents.

But not all county services are available to citizens of municipalities. When a city has its own police department the county sheriff does not answer calls within a municipality. County road crews stop at the city limits. Many municipalities provide their own parks and recreation facilities, their own planning and zoning services, solid waste disposal, snow removal, building codes, economic development programs, street lighting, and more.

Unless the value of municipal services is recognized in the tax rate, city and town residents pay twice for services they receive only once. This is the inequity known commonly as "double taxation."

Many counties have acted to reduce double taxation by lowering the county tax rate for municipal residents or by returning tax dollars to the municipal government. The first system, lowering the county tax rate within municipalities, is called a <u>tax differential</u>. For instance, in Aberdeen last year, the county property tax rate was $2.12 per $100 assessed value. But for Harford County residents living outside the incorporated municipalities, the tax rate was $2.55. The tax differential, then is 43¢. A second method used by counties to reduce double taxation is the <u>tax rebate</u>. While municipal taxpayers still pay the same property tax rate, the county returns some of these funds to the municipal government. As an example, Frederick County returned more than $300,000 to ten municipalities last year.

Unfortunately, only about half of Maryland's counties have established a tax set-off system to lessen the inequity of double taxation. In those counties, citizens of municipalities still pay taxes for services which the county does not provide within their cities or towns.

This report identifies some of the important aspects of double taxation, reviews the tax set-off systems which currently exist in Maryland, answers some common questions regarding double taxation, and suggests methods by which an effective tax set-off campaign could be mounted by municipalities. Following the report is an appendix containing the State tax set-off laws and laws relating to some of the local tax set-off systems.

MML's Tax Set-Off Handbook is designed as a simple guide for municipal officials, not an academic study of the issue of double taxation. It is dedicated to assisting all local officials in their attempts to achieve an equitable tax rate for municipal residents.

IMPORTANT ASPECTS OF TAX SET-OFF SYSTEMS

Every tax set-off system already in use in Maryland is unique and reflects the varying traditions and political realities of the regions involved. There are, however, several aspects of a tax set-off which apply to every municipality, and must be considered before a system to end double taxation can be established or altered.

1. Legal Basis. Beginning July 1, 1984, seven counties are required by state law to "levy a tax on the assessable property located within one or more of the municipal corporations of the county, which is less than the general county property tax rate, if it can be demonstrated that the municipal corporation performs governmental services or programs in lieu of similar county governmental services or programs" (Article 81, Section 32A). The counties affected are Allegany, Anne Arundel, Baltimore, Garrett, Howard, Montgomery, and Prince George's.

For the state's remaining sixteen counties, double taxation elimination is a local option. State law provides only that these counties "may" establish a tax differential or rebate.

Municipalities in the sixteen counties not covered by the provisions of Article 81, Section 32A, have two options: (1) Continue to work with local delegations for legislation including their county in the state law, or (2) work with county officials to write a tax set-off provision into local laws or the county code.

Without the force of state or county law, a tax set-off system is in constant jeopardy of being reduced or eliminated by a fiscal or political squeeze. A tax differential which was established on good will can be eliminated if that good will is lost or if new officials are elected to office. Several of the current tax differentials have been threatened, suspended, reduced, or eliminated when a county faced financial difficulties. In one case the threatened elimination of a tax differential system was the impetus for a municipal campaign which succeeded in having a county council pass an ordinance codifying a tax differential system.

A copy of the state law and examples of county code provisions can be found in the Appendix of this report.

2. Establishing a System. Municipal officials need to begin meeting nearly a year in advance to establish a new tax set-off system. During the summer and fall, municipal officials should begin discussions to:

a) collect data on the cost of municipal services;

b) identify services which the municipalities provide in lieu of county services;

c) select a method to determine the value of these services and the amount of a set-off due to municipal residents; and

d) decide whether a tax differential or tax rebate best meets the needs of your municipality and its residents.

Once these issues have been discussed among municipal leaders, meetings with county officials should be scheduled in an attempt to reach an agreement on these same points. State law requires all counties to "annually meet and confer with municipal officials" to discuss double taxation

By early spring the county budget process will begin, and, if all has gone well, a tax set-off system will be included in the budget.

3. Formula. Selecting a formula to measure the extent of double taxation and determine the appropriate differential or rebate is the most important and most controversial part of the process. Because of the complexity of the subject and the fact that money is involved, two major problems arise:

a) There are several formulae in use, but none are perfect, easily understood, or universally accepted; and

b) even after a formula is adopted, there is room for wide disagreement as to which services, programs, revenues and expenditures to include.

Even so, complexity alone should not discourage municipalities and counties from reaching a mutually agreeable solution. An equitable tax rate can be developed, and has been developed in several counties.

The Institute for Governmental Service (IGS) at the University of Maryland has worked out two formulae which are perhaps the best now available, and has computed tax differentials for a number of municipalities.

One formula favors municipalities, the second favors counties. While neither version can be relied on to set the exact differential or rebate, they can provide a good basis for negotiations. The League staff can provide more information about IGS and its work in this area if you are interested.

Regardless of the formula or method selected to determine the amount of double taxation, it should recognize all services performed by the municipality which are duplicated by the county. Any formula which only takes into account one area of county duplication, whether street lighting, police protection, or road repair, may only be touching the tip of the iceberg. A comprehensive tax set-off system attempts to examine all areas of county duplication and lighten the burden of county taxation on municipal residents accordingly.

It is also important that the formula be flexible enough to recognize changing circumstances. A tax differential or municipal rebate program which grants municipal residents a fixed level of benefits may become less meaningful if the county greatly increases services to unincorporated areas, or if a municipality elects to expand its services. A tax differential of 35¢ which appeared appropriate when the county tax rate was $2.00 may prove inadequate if the county tax is raised to $3.00 over a period of time. By the same token, a fixed grant to municipalities of a specified number of dollars will eventually be eroded by inflation. Tax differentials need to be tied to a base which reflects the level of county services provided to municipal residents year by year or else be subject to review and revision at specified time periods.

4. Rebates and Differentials. State law permits counties to address the problem of double taxation by granting a direct tax differential to municipal residents or making a lump-sum rebate payment to the municipal government.

While the ultimate choice between the two systems is left to county officials, municipalities should consider which system would work best for their community before negotiations with the county begin. Since it is unlikely that a county would grant rebates to some municipalities and differentials to others, municipalities should be in general agreement before meeting with county officials.

Some municipal officials prefer the tax differential to the rebate. The differential assures that citizens will receive the full benefit of the lower rate and puts the tax relief up front on the county tax bill, giving each municipal taxpayer a personal stake in the continuance of the tax differential. If the program is threatened, the county will hear an outcry not just from the municipal officials, but from municipal taxpayers and voters who see their county tax bills going up.

A tax rebate, on the other hand, is favored by some municipal officials because it provides more flexibility. Since the municipality receives the benefits of the tax set-off rather than the individual taxpayer, part or all of the rebate may be retained in the budget to improve services and keep the municipal tax rate down. Some municipalities use the entire rebate to lower taxes; one municipality reduced the tax rate by 11¢ and lets its residents know in large red letters on the town's tax bill. Used in this manner, the rebate can also build public support for the program.

5. Monitoring the System. The appointment of a joint study group or task force comprised of municipal and county officials can be useful in monitoring the effectiveness of the tax differential system. The group is also in a position to respond to difficulties as they arise, such as tax billing errors, or miscalculation of rebate checks. Finally, since much of the tax differential background material tends to get rather complicated and technical, a study group allows some representatives from each side to get an in-depth understanding of the program.

TAX SET-OFF SYSTEMS IN MARYLAND

Although all 154 incorporated municipalities levy a property tax and provide services to their citizens, only eleven counties currently grant a tax differential or rebate. The remaining ten counties with municipalities provide no tax set-off system to relieve residents of double-taxation. Under the 1983 legislation, two of these ten, Allegany and Garrett Counties, will be required to establish an equitable tax structure for municipal residents in FY 1985.

TAX DIFFERENTIAL

In the following four counties, municipal residents pay a lower rate on their county property taxes.

Anne Arundel

Residents of Annapolis received a form of tax differential as early as the 1930's, when they were exempted from payment of any county taxes in support of county roads or public safety. The tax differential remained in effect up until recent years when it was abolished for fiscal years 1970 and 1971. The city and county jointly cooperated in a consultant's study in 1971 regarding tax differential and intergovernmental relationships and reinstated a 30¢ tax differential in the budget for fiscal year 1972. A differential has remained in place since then.

In 1974 an Annapolis resident took the county to court for not granting an adequate tax differential. The Court of Special Appeals in Griffin vs. Anne Arundel County stated that tax differential was a legislative issue and not a matter subject to judicial remedy. The General Assembly responded by enacting a law in 1977 prohibiting Anne Arundel and Howard Counties from taxing municipal residents for services which municipalities provide. Following passage of the law, Annapolis hired an accounting firm to measure the net costs to Anne Arundel County of services delivered outside the City of Annapolis. The auditor's report disclosed that Annapolis residents should pay a county tax rate of at least one dollar less than non-municipal residents. Still Annapolis residents paid only 41¢ less on their county property tax rate than non-municipal residents in fiscal year 1979; but, by 1982 the differential had increased to 80¢.

In two other cases, Theodore Woolsey Johnson, Jr., et al vs. Controller, Anne Arundel County, Maryland, and Annapolis Yacht Yard, Inc., vs. Controller, Anne Arundel County, Maryland, filed in the Maryland Tax Court in March, 1982, petitioners sought refunds of the difference between what was paid in county real property taxes and what would have been paid if the differential rate was properly calculated. Among the issues to be decided by the Tax Court are: (1) whether owners of property located within the City of Annapolis may be taxed for County services which the County provides only outside of Annapolis, and (2) whether constitutional and statutory provisions require that the differential rate be determined by an "assessed valuation" method. Using this method, the cost of County-wide services is apportioned across the County-wide assessable base while the cost of services provided by the County in areas lying outside of the City of Annapolis is spread only across that portion of the assessable base of the County which lies outside of the City. A decision in this case is expected in 1984.

Charles

Early in 1977 the municipal officials of the two Charles County municipalities presented their county commissioners with a proposal documenting the amount of tax differential to which they felt they were entitled. The result was that the two towns shared a rebate of $14,657 in fiscal year 1978. The county shifted to a direct tax differential for fiscal year 1979. Residents of LaPlata paid 13¢ less and Indian Head residents paid 3¢ less on their county property tax rate than non-municipal residents in fiscal year 1982. The differential amounted to taxpayer savings of $37,000.

Harford

Harford County has granted its three municipalities a direct tax differential since the early 1950's. The tax differential, enacted as part of the county code, establishes a tax levy for services provided county-wide and an additional levy on unincorporated areas for services provided only to non-municipal residents. Municipal residents are specifically relieved from funding any part of the following services which are provided only in unincorporated areas: 1) the maintenance and construction of county roads and bridges, 2) all expenses of the County Highways Department and Roads Engineer, 3) county highway lighting, and 4) costs relating to the construction, acquisition, and maintenance of dumps for non-municipal residents. Municipal residents paid 43¢ less on their county property tax rate than non-municipal residents in fiscal year 1982.

Prince George's

In November, 1983, the Prince George's County Council adopted a $6.5 million tax differential plan for their 28 municipal corporations. Prior to the new law, the county had provided rebates totaling $1.6 million annually. That figure was based on 9¢ per $100 total assessed value of all municipalities in the county.

In 1982, the Prince George's County Municipal Association (PGMA), established a subcommittee to develope a double taxation elimination strategy. The members, representing a cross section of the county's municipalities, invited speakers from Annapolis, an accounting firm, and the Institute for Governmental Service. After contracting with IGS to perform an analysis of several towns, the PGMA subcommittee began work to develop their own formula.

In August, 1983, following the passage of the new State law, the subcommittee met with county officials. After several meetings to resolve conflicts over the formula, legislation was introduced in the County Council that October and was approved by a 6-3 vote. The new formula, which will become effective July 1, 1984, will allocate the differentials based on the level and value to the county of municipal services. One result of the change from rebate to differential will be an increase in municipal tax rates. While the combined city-county property tax bill will be lower for municipal residents, the municipal rates must be raised to off-set the loss of the rebate.

Success in Prince George's County resulted not only from the hard work of the subcommittee, but on the cooperation of the county and all municipalities, an unrelenting public education campaign, and support of the press as well.

TAX REBATE

In the following seven counties, a portion of property tax revenue raised within municipalities is returned to the cities and towns by the county.

Calvert

Shortly after the passage of the law in 1975 authorizing tax differentials, the mayors of North Beach and Chesapeake Beach met with the County Commissioners and requested the establishment of a tax differential. The Commissioners agreed, for fiscal year 1976, to reduce the County tax rate in each town by $1.00, with the understanding that the towns would each raise their municipal tax rates by $1.00. The County asked that the additional revenues be applied to specific projects of the town's choice. Since fiscal year 1977 the county has provided the municipalities with rebates rather than a direct tax differential. The rebates are based on $1.00 per $100.00 of assessed property value within each town and are unrestricted as to use. The two municipalities shared a total rebate of $173,358 in fiscal year 1982.

Caroline

The local laws of Caroline County have required the County Commissioners to make grants to their municipalities for street maintenance since the 1930's. The county local laws currently require the county to rebate 6% of the county property taxes collected within each municipality to be used for street maintenance (See Appendix A-4). The total rebate to the nine municipalities for fiscal year 1982 was $52,221.

Carroll

In 1976, municipalities contracted jointly with a consulting firm to conduct a study of Carroll County taxation and services. The study examined many areas of local taxation and service delivery to identify areas where municipal residents were being over-taxed by the county and where the county was receiving state shared revenues which were not equitably shared with municipalities.

As a result of the consultant's study and several meetings between the county and municipal officials, a joint agreement was developed. Among other things it contained a pledge of cooperation:

1. To jointly review plans of public utility requirements, commonality of master plans, subdivision plat reviews, and annexation requests.

2. To examine such disproportionate distributions of revenues as may currently exist and take immediate steps to correct to the fullest extent possible any inequities which deprive the residents of any of the governmental units a fair share of such revenues to their benefit.

3. To follow existing principles and act on a mutually agreed basis to make provision for such intergovernmental cooperation as will simplify the process of government, prevent conflicts in action, expedite the provision of services and lower the cost of government to the citizens.

4. To address each of the concerns to the limit of existing authority, and, if necessary, to jointly solicit further powers by act of the state legislature.

The Carroll County Commissioners provided a total rebate to the municipalities of $150,000 in fiscal year 1978 and appropriated $250,000 to be distributed in fiscal year 1979. By fiscal year 1982, the rebate had grown to $400,000 annually. In addition, the county provides about $100,000 in road grants and $50,000 in in-kind aid. A complex formula involving services was rejected by the county and municipalities; the annual rebate is distributed by population.

Dorchester

In fiscal year 1982, nine Dorchester county municipalities shared a rebate of $46,050. The funds are provided for street maintenance needs.

Frederick

County and municipal leaders agreed, in 1981, on a rebate formula for the cities and towns in Frederick County. The formula is based on factors of relative road mileage, population, area, and county expenditures within the municipalities. Services such as road maintenance, police protection, waste collection, and parks and recreation are all considered.

The first payment, for fiscal year 1982, totaled $314,236. For fiscal year 1983, the municipalities received $318,250. Frederick at $199,739 receives the largest payment; Myersville's $2,111.00 is the smallest. One town, Rosemont, does not receive a rebate.

Montgomery

In fiscal year 1974, Montgomery County initiated a program of rebates to municipalities in recognition of public services which otherwise would have been provided by the County. Between fiscal years 1974 and 1977 the County reimbursed the municipalities a total of $1,570,000, but the distribution formula was complicated, controversial, and occasionally not fully funded by the County.

In recognition of the deficiencies of the program, a joint Task Force on County-Municipal Financial Relationships was established in 1977. The Task Force studied the problems and held several meetings over nearly a year. In September of 1978 the Task Force issued its report which suggested methods of solving several local issues and rewriting the formula for the municipal rebate program. The revised formula provided each municipality with a grant per street mile based on the cost to the County for street maintenance in unincorporated areas. The formula, which was adopted by a Council resolution in October, 1978, authorized a subsequent appropriation of $1,008,000 to be distributed among the municipalities in fiscal year 1979, based on relative street mileage (See Appendix A-6). The County Council intended that the funds provided by this program be used to provide relief in municipal tax rates.

An expanded program was adopted in April, 1982, for fiscal year 1983, which includes a county reimbursement program for code expenditures such as zoning, housing, animal control, and construction code enforcement. The county will also reimburse two cities for consumer affairs and human relations services.

Total payments to the county's sixteen municipalities were $1.4 million in fiscal year 1982.

Montgomery County has also established a series of special area taxes, closely related to the concept of direct tax differential, under which citizens are taxed only for services actually provided to them by a particular level of government. Montgomery County has divided itself into a number of designated areas, each of which is subject to a separate special area tax. Special area taxes are used to fund services such as Metro rail and bus systems, recreation, fire service, storm drainage, and land acquisition.

Queen Anne's

Although exempted from the State's enabling legislation for the granting of tax differentials prior to 1984, the County Code authorizes annual grants to municipalities for the purpose of street and bridge maintenance.

The rebates equal 10¢ per $100 assessed value within each municipality. In fiscal year 1982, Queen Anne's County's seven municipalities shared $21,935.

AN EFFECTIVE TAX DIFFERENTIAL CAMPAIGN

As with most undertakings, a well thought-out plan will be more likely to succeed than a haphazard effort. Municipal officials have met with varying degrees of success around the State in obtaining tax set-off systems. Their efforts over the years have pointed out some important considerations in mounting an effective campaign to eliminate double taxation.

1. Get Documentation

In order to effectively argue that municipal taxpayers are funding county services from which they receive no benefit, you have to get the facts. Normally this starts with obtaining a copy of the current county budget and the budgets of all municipalities in the county. The assessable base figures for the county and each municipality are particularly important. One approach which has been used effectively is to identify particular county services from which municipal residents receive no benefit and then determine what amount of property taxes were levied by the county on municipal residents to fund those services.

Avoid developing a formula which is too elaborate. The county officials won't understand it, municipal officials won't understand it, and it will boil down to an argument between county and municipal accountants. The methodology is not that important anyway, because it is always, in the end, a political decision. But don't overlook the possibility of bringing in an independent third party to provide objective background documentation; in one county, municipal officials received excellent results by hiring a consultant to document the need for their case for a tax set off. A small investment split among the municipal governments paid off with big dividends.

2. Get the Public Involved

Both the press and the public can be helpful in an effective tax campaign to end double taxation. Let your municipal residents know of the extent to which they are subsidizing county services. Release the results of tax set off studies to the press. Make it an issue and keep it an issue until the double taxation problem has been resolved.

3. Present a United Front

All municipal officials within a county area have to work together if they expect to achieve a fair tax set off system. A letter to the county signed by all of the municipal officials or a press conference of all of the mayors can be effective in presenting a unified effort to establishing a tax differential or rebate. Nothing will undercut a campaign faster than a disunified effort. Keep in mind that this is an issue of importance to all municipalities regardless of size. While representatives from a large municipality in the county may be effective spokesmen for the group, they can't be expected to carry the ball alone.

APPENDIX

4. Present a Pressing Need

Sometimes highlighting a local problem can be an effective way to pressing the need for a tax set off. Consider pointing out the different income or economic characteristics of the municipal residents which may exist, including the percentage of elderly, fixed income, or low income residents. Look at individual service areas, such as the municipal street improvement needs which are unmet due to the municipal subsidy of county roads.

5. Get the Votes

The bottom line in determining whether or not you get a tax differential or rebate will depend on obtaining a majority of the votes of the local elected officials (or in some cases the local delegation to the General Assembly.) Don't expect to win solely on documentation. One city has engaged in a consultant's study and an accountant's report in pursuing a tax differential increase over the past ten years. Yet, they still find themselves frustrated because they don't have the votes at the county level.

The contacts with the press and the citizen involvement will be important in persuading the county governing body to enact a tax set off. Make double taxation a campaign issue at election time to see where the candidates stand. Make sure the county officials realize that this is an issue important to the citizens as well as the municipal officials.

6. Get it in Law

Your campaign is not finished until your tax set off system is enacted as a local law or ordinance. Unless this is accomplished, the system you worked so hard to develop can be reduced (or even eliminated in those counties not included in the State mandate) any year at budget time.

(Amendment effective July 1, 1984.)

Art. 81, § 32A. Levy of county tax in municipalities performing services in lieu of county services; payments by counties to municipalities providing services in lieu of county services.

(a) (1) The board of county commissioners or the county council shall annually meet and discuss with municipal officials, and after this consultation with municipal officials, shall levy a tax on the assessable property located within one or more of the municipal corporations of the county, which is less than the general county property tax rate, if it can be demonstrated that the municipal corporation performs governmental services or programs in lieu of similar county governmental services or programs. In establishing the property tax rate on the assessable property within one or more of the municipal corporations, the county shall take into account the governmental services and programs which the municipal corporations perform in lieu of similar county governmental services and programs and the extent that the similar services and programs are funded through property tax revenues. The county property tax rate set for one municipal corporation does not have to be uniform among all municipal corporations within the county, and the rate set for one tax year need not be the same in any succeeding year.

(2) In lieu of a lesser rate of county property tax as provided in paragraph (1) of this subsection, the county may make a payment to the municipal corporations to assist the municipal corporations in funding governmental services or programs which the municipal corporations perform in lieu of similar county services or programs.

(3) The provisions of this subsection apply only in:

(i) Allegany County;

(ii) Anne Arundel County;

(iii) Baltimore County;

(iv) Garrett County;

(v) Howard County;

(vi) Montgomery County;

(vii) Prince George's County.

(b) (1) The board of county commissioners or the county council shall annually meet and discuss with municipal officials, and after this consultation with municipal officials, may levy a tax on the assessable property located within one or more of the municipal corporations of the county, which is less than the general county property tax rate, if the municipal corporation performs governmental services or programs in lieu of similar county governmental services or programs. In establishing the property tax rate on the assessable property within one or more of the municipal corporations, the county may take into account the governmental services and programs which the municipal corporations perform in lieu of similar county governmental services and programs and the extent that the similar services and programs are funded through

property tax revenues. The county property tax rate set for one municipal corporation does not have to be uniform among all municipal corporations within the county, and the rate set for one tax year need not be the same in any succeeding year.

(2) In lieu of a lesser rate of county property tax as provided in paragraph (1) of this subsection, the county may make a payment to the municipal corporations to assist the municipal corporations in funding governmental services or programs which the municipal corporations perform in lieu of similar county services or programs.

(3) The provisions of this subsection apply only in:

(i) Calvert County;

(ii) Caroline County;

(iii) Carroll County;

(iv) Cecil County;

(v) Charles County;

(vi) Dorchester County;

(vii) Frederick County;

(viii) Harford County;

(ix) Kent County;

(x) Queen Anne's County;

(xi) Somerset County;

(xii) St. Mary's County;

(xiii) Talbot County;

(xiv) Washington County;

(xv) Wicomico County; and

(xvi) Worcester County.

(1983, ch. 603.)

Amendment effective July 1, 1984. — The 1983 amendment, effective July 1, 1984, designates the provisions of subsection (a) as paragraph (1), substitutes "shall levy" for "may levy" near the beginning of the first sentence in that paragraph, inserts "it can be demonstrated that" in that sentence, substitutes "shall take into account" for "may take into account" in the second sentence, redesignates subsection (b) to be paragraph (2) in subsection (a), substitutes "paragraph (1) of this subsection" for "subsection (a) of this section" in that paragraph, deletes subsection (c), adds paragraph (3) in subsection (a) and adds subsection (b).

Sec. 11-16. Exemption of incorporated towns from taxation for certain purposes.

(a) In fixing the tax rate for the county for any year beginning after June 1, 1953, the county council shall first fix a rate applicable in an equal manner to property within and without the incorporated towns of the county, which rate shall be sufficient to raise all sums needed to be raised by such taxation to meet all estimated county expenses except the following, which are hereinafter called "listed activities," for which listed activities no levy shall be made on property within the incorporated towns:

(1) Maintenance, care, repair and construction of roads and bridges outside the boundaries of the incorporated towns.

(2) All expenses of the county department of public works concerning county highways.

(b) After fixing a county-wide rate as above, the county council shall then levy an additional tax on property outside the city and incorporated towns sufficient to satisfy the appropriations for the above listed activities outside the city and incorporated towns, after first applying to such appropriations all other anticipated revenue required to be spent on any of such listed activities and any surplus resulting from any such prior additional tax, levied for any year beginning after January 1, 1953, or other revenue required to be spent on any of such listed activities. All sums collected from such additional tax, together with all other revenues dedicated or allocated to any one or more of such listed activities shall be kept by the treasurer or the comptroller of the treasury of the county in a special account separate and apart from all other funds, and no part of the funds so directed to be segregated for such listed activities shall be spent for any purpose other than such listed activities; provided, that the county council may, to avoid the necessity of borrowing for current operations, advance money to or from such funds segregated hereunder in accordance with the Charter. (Bill No. 77-98, § 1.)

APPENDIX C - MONTGOMERY COUNTY LAW

CHAPTER 30A.

MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM.

Sec. 30A-1. Established.

There is hereby established a program to reimburse municipalities within the county for those public services provided by the municipalities which would otherwise be provided by the county government. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-2. Qualification of municipal public services for county reimbursement.

Municipal public services shall qualify for county reimbursement if the following conditions are met: (1) The municipality provides the service to its residents and taxpayers, (2) the service would be provided by the county if it were not provided by the municipality, (3) the service is not actually provided by the county within the municipality and (4) the comparable county service if funded from tax revenues derived partially from taxpayers in the participating municipality. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-3. Determination of amount of reimbursement.

Subject to the provisions of section 30A-4, each participating municipality shall be reimbursed by an amount determined by the county executive to approximate the amount of municipal tax revenues required to fund the eligible services. The amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-4. Limitations on expenditures.

All expenditures by the county under the authority of this chapter shall be subject to the limits of the funds appropriated by the county council. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-5. Application to participate in program.

Any municipality within the county which desires to participate in the county municipal revenue program shall submit not later than November 15 of each year to the county an application which shall be in such form and contain such information as may be required by the county executive. (1974 L.M.C., ch. 7, § 1.)

COUNTY COUNCIL OF PRINCE GEORGE'S COUNTY, MARYLAND

Legislative Session 1983

Proposed and Presented by Council Member Herl

Introduced by Council Members Herl, Casula and Castaldi

Bill No. CB-134-1983

Chapter No. 99

Introduced by Council on November 1, 1983

BILL

AN ACT concerning

Municipal Tax Differential

FOR the purpose of establishing the procedures for the reduction of the rate of County real property taxes levied in municipalities to reflect the cost of those services not provided to municipal residents by the County.

BY repealing:

SUBTITLE 10. FINANCE AND TAXATION.

Sections 10-183 through

10-186.2,

The Prince George's County Code

(1979 Edition, 1982 Supplement).

BY adding:

SUBTITLE 10. FINANCE AND TAXATION.

Sections 10-183 through

10-185 ,

The Prince George's County Code

(1979 Edition, 1982 Supplement).

SECTION 1. BE IT ENACTED by the County Council of Prince George's County, Maryland, that Sections 10-183 through 10-186.2 of the Prince George's County Code be and the same are hereby repealed.

SUBTITLE 10. FINANCE AND TAXATION.

DIVISION 6. MUNICIPAL TAX DIFFERENTIAL.

[Sec. 10-183 through 10-186.2].

SECTION 2. BE IT FURTHER ENACTED that Sections 10-183 through 10-185 be and the same are hereby added to the Prince George's County Code.

SUBTITLE 10. FINANCE AND TAXATION.

DIVISION 6. MUNICIPAL TAX DIFFERENTIAL.

Sec. 10-183 - Definitions.

For purposes of this Division the following words and phrases have the meaning assigned below, except in those instances in which the context clearly indicates a different meaning:

(1) County-wide real property assessable base shall be as set forth in the County's Approved Current Expense Budget.

(2) Eligible services shall mean those services which are provided by a municipality in lieu of County services.

(3) Municipal real property assessable base shall be that figure calculated by the County from the most currently available assessment data.

(4) Municipality shall mean an incorporated city or town which holds a Charter from the State of Maryland and is partially or entirely within the boundaries of Prince George's County.

(5) Net county service cost shall mean the cost for a service as reflected in the County's adopted Current Expense Budget increased by the amount of indirect costs allocated to that service and reduced by any fees, service charges, grants or other revenue directly attributable to that service.

Sec. 10-184. Municipal Tax Differential established.

(a) In fiscal year 1985 and each year thereafter the County Council shall levy against all real property located within each municipality a tax rate that shall be lower than the tax rate levied against real property situated in unincorporated areas of the County in accordance with the procedures set forth in this Division.

(b) The difference between the tax rates for unincorporated areas and the several municipalities shall be calculated and established as follows:

1. For each eligible service, the County shall compute the net County service cost.

2. The County shall convert the net county service cost into a real property tax rate equivalent by dividing the net county service cost by the County-wide real property assessable base.

3. The County shall provide to each municipality by October 1 of each year a copy of the County's adopted Current Expense Budget for the fiscal year which began the preceding July 1, which document shall be used in determining the tax differential for the ensuing fiscal year.

4. The County shall also provide to each municipality a standardized report form listing each potentially eligible service.

5. Each municipality shall identify, in 10% increments, the degree to which it is providing eligible services to its citizens in lieu of the County providing those services. Each municipality shall complete and return the standardized report to the County by November 1 of each year.

6. Each municipality's report shall be subject to verification by the County, and may be subject to negotiation between the County and the municipality.

7. If, by December 15 the County and the municipality are unable to agree on the degree to which the municipality is providing one or more eligible service(s) in lieu of the County providing the eligible service(s), the matter(s) in dispute shall be submitted to an Advisory Arbitration Panel as

established in Section 10-185 of this Division.

8. For each eligible service, the degree of service provided by the municipality times the real property tax rate equivalent, times the municipality's real property assessable base, shall equal the unadjusted value of the municipality's eligible service.

9. The total of the unadjusted values for all eligible services provided by all municipalities shall be the unadjusted value of Part One of the tax differential program.

10. The total municipal share of local income tax revenues for all municipalities as projected using the County income tax estimate in the County budget shall be subtracted from the unadjusted value of the tax differential program. The balance represents the adjusted value of Part One of the tax differential program. The adjusted value of Part One of the tax differential program shall be allocated among the municipalities in direct proportion to each municipality's share of the total unadjusted value of all municipal eligible services.

11. Each municipality's share of the value of Part One of the tax differential program shall be converted to a real property tax rate equivalent by dividing that value by the municipality's real property assessable base.

12. For Part Two of the differential program, the County shall convert each municipal tax differential grant amount provided in Fiscal Year 1984 to a real property municipal tax rate equivalent by dividing each municipality's Fiscal Year 1984 grant amount by that municipality's real property assessable base for Fiscal Year 1984. The resulting real property tax rate equivalent shall be the constant differential rate to be provided as Part Two of the Differential formula.

13. For each municipality, the sum of the differential tax rates as determined under Part One and Part Two of the formula

shall be the tax rate differential for the ensuing fiscal year.

14. The total amount of the tax differential provided in this Division shall be phased in over a two-year period, beginning in Fiscal Year 1985, as determined by the County. The amount to be phased in for Fiscal Year 1985 shall not be less than the amount determined under Part Two, plus at least some portion of the amount determined under Part One.

15. For Fiscal Years 1985 and 1986 only, those municipalities with charter tax rate limitations, and whose Fiscal Year 1984 tax rate per One Hundred Dollars ($100.00) assessed valuation is not ten cents ($0.10) or more below their tax rate limit, shall be provided the tax rate differential determined under Part One, including for Fiscal Year 1985, the same relative portion of the amount determined under Part One for all municipalities, and shall be provided a grant in an amount determined under Part Two in lieu of a tax differential determined under Part Two.

Sec. 10-185. Advisory Arbitration Panel; selection; procedures.

(a) An advisory arbitration process shall be employed in the event the County and a municipality are unable to reach agreement upon the degree to which a municipality is providing services in lieu of the County providing the service. An advisory arbitration panel shall be constituted as follows:

a. One member named by the municipality;

b. One member named by the County government;

c. One member chosen jointly by the member selected by the municipality and the member selected by the County government.

(b) Upon receipt of disputed matter(s), an advisory arbitration panel, selected as set forth in (a), above, shall conduct a hearing no later than January 30, provided that both the County and the municipality have had no less than forty-eight (48) hours notice of the date, time and place of such hearing.

(c) At the hearing, the County and the municipality may present testimony, evidence, and oral argument as to the matters in dispute.

(d) The Advisory Arbitration Panel shall issue its advisory determination to the County Executive and County Council no later than February 15. The final decision shall be made by the County Executive and County Council.

Sections 10-186 through 10-186.2. Reserved.

SECTION 3. BE IT FURTHER ENACTED that the procedural steps for establishing the tax differential rate as enacted in Section 2 of this Act and set forth in Section 10-184(b)(3), (5) and (7) shall, for Fiscal Year 1985, take place by December 15, 1983, January 30, 1984, and February 15, 1984, respectively; and the dates set forth in Section 10-185 (b) and (d) shall be March 1, 1984, and March 15, 1984, respectively.

SECTION 4. BE IT FURTHER ENACTED that this Act shall take effect forty-five (45) calendar days after it becomes law.

Adopted this 29th day of November, 1983.

COUNTY COUNCIL OF PRINCE GEORGE'S COUNTY, MARYLAND

BY:
Frank P. Casula
Chairman

ATTEST:

Jean M. Schmuhl, Clerk

APPROVED:

DATE: December 12, 1983

BY:
Parris N. Glendening
County Executive

TO BECOME EFFECTIVE JANUARY 27, 1984

Property Tax Double Taxation in Maryland

Double taxation exists (1) when a county and a municipality within that county provide similar services financed with property tax revenues, and (2) when the county does not provide those services within municipal corporate limits because the city or town already does so. In such cases, municipal property owners pay taxes to both the municipal and county governments for a service (or services) they receive only from the municipality.

Property Tax Setoffs

A *property tax setoff* compensates municipal taxpayers for double taxation by levying a lower county property tax rate -- known as a *property tax differential* -- for municipal property owners or by granting a direct payment -- known as a *property tax rebate* -- to the municipality.

Legislative History

While laws addressing municipal-county double taxation in Maryland have been in place for many years, it was not until 1975 that the General Assembly enacted double taxation legislation that generally had statewide application. After failing to enact similar legislation in 1974, the General Assembly passed a measure in 1975 that permitted, but did not require, counties to offer a tax differential or a tax rebate for cities and towns that provided services in lieu of similar county services. However, through the use of legislative local courtesy, one-third of the counties were exempted from this legislation.

As a result of legislation passed over the next three years (1976-1978), all but one county was brought under the property tax setoff enabling authorization. In 1977, legislation passed affecting only Anne Arundel County and Howard County (the latter of which has no municipalities). In those two counties the law established that the county "may not impose taxes upon residents of any incorporated municipality for services which that municipality provides for its residents." In 1978, the General Assembly also approved a bill requiring the Department of Fiscal Services to prepare an annual report reviewing the progress of counties in establishing tax setoff systems.

Legislation enacted in 1982 required all county governments to meet and confer annually with municipal governments within their jurisdictions to determine whether double taxation existed.

It was not until 1983 that the General Assembly enacted a law requiring a county to provide a property tax setoff for municipal property taxpayers if a municipality provides a service in lieu of a similar county service. The law took a two-pronged approach, again as a result of local courtesy. For all but seven counties the law stated that, where double taxation was found to exist, a county *may* provide a property tax setoff. For the remaining seven counties (only five of which had municipalities) the law required that a county *shall* provide a property tax setoff where double taxation was determined to exist.

From 1983 to 1998, the law, as it affects all municipal governments, remained unchanged with the exception of legislation passed in 1986 that added an eighth county (Harford) to the *shall* provision. However, the section of law affecting only Anne Arundel County and Howard County was amended in 1985 to provide that these two counties could not impose a property tax within a municipality to pay for services that city or town provides. As originally enacted, this section of law had applied to all county taxes -- not just property taxes.

League sponsored legislation introduced during the 1997 General Assembly session initially would have moved all counties in the State to the *shall* category, would have set up guidelines and deadlines for annual municipal-county property tax setoff discussions, and would have established mediation mechanisms to address instances where a municipal government and a county government could not agree on tax setoff issues. As a result of significant opposition from the Maryland Association of Counties, the bill was completely amended to instead create a task force to study double taxation issues and to make recommendations to encourage cooperation between municipal and county governments with regard to property tax double taxation, other State and local tax and aid distributions, and service efficiency and duplication.

After strong encouragement from General Assembly members of the newly created task force to come to an accommodation on these issues, the Maryland Municipal League and the Maryland Association of Counties agreed to compromise legislation which was introduced and passed during the 1998 session of the Maryland General Assembly (see below).

The General Assembly enacted a bill in 1999 to add Frederick County to the list of counties that must provide a property tax setoff when a municipality in the county provides services in lieu of similar county services. Frederick County became the ninth county included under the *shall* provision of Maryland's double taxation law.

Finally, the General Assembly in 2010 (HB 476) and 2011 (SB 760) enacted legislation that took a novel approach. The bills provided that, for fiscal years 2011 and 2012 only, Frederick County was required to grant to each of its municipalities a property tax setoff at least as large as the setoff granted in the preceding fiscal year and to increase the setoff by the percentage by which the county property tax rate exceeded the constant yield tax rate.

1998 Amendments

The law immediately prior to the passage of MML's priority legislation in 1998 mandated that all Maryland county governing bodies must meet and confer with their municipal governing bodies concerning the issue of double taxation once each year. Eight counties (only six of which had municipalities) were required to provide a property tax setoff if it could be demonstrated that one was warranted. Those counties included Allegany, Anne Arundel, Baltimore, Garrett, Harford, Howard, Montgomery and Prince George's. The law stated that the remaining 15 counties *may* provide, but were not required to provide, a property tax setoff if it could be demonstrated that one was warranted. Nine of these 15 counties gave some level of double taxation relief in 1997, while six did not. The six counties that granted no double taxation relief as of 1997 were Dorchester, Garrett, Somerset, Talbot, Wicomico and Worcester.

With the exception of the requirement that a county governing body meet on an annual basis with municipal governing bodies within the county, these requirements remain unchanged. While the law as amended in 1998 retained the requirement that county and municipal governing bodies meet to discuss the county property tax rate within municipalities, the requirement that this be done annually was deleted.

Instead the law now sets out procedures by which a municipality may request and negotiate double taxation relief from the county and be guaranteed at least a minimum level of response from the county. The bill however leaves latitude for a municipality and a county to establish different terms for negotiations, calculations, and property tax offset approval where both parties agree to alternative approaches. The law also provides the county with the discretion to grant a tax setoff to a city or town that fails to make a request as prescribed in the 1998 amendments.

Under the bills passed in 1998 (Senate Bill 113 and House Bill 216), a municipality that wishes to receive a property tax setoff may submit a proposal stating the desired level of tax offset for the coming year at least 180 days before the required approval date of the annual county budget. The proposal must include a description of the scope and nature of the services or programs that the municipality provides in lieu of similar county services. It must also include financial records on municipal revenues and expenditures. Both submittals must be sufficiently detailed to permit an assessment of the similar services or programs.

Upon receipt of the municipal proposal and accompanying documentation, the county must promptly submit to the municipality financial records and other documents that detail county revenues and expenditures.

At least 90 days before the required annual county budget approval date, both the municipality and the county must designate individuals to meet and discuss issues relating to double taxation. This may be done jointly with other municipalities. The county may also request additional information that is reasonably needed to assess the need for double taxation relief; representatives of the municipal government must in turn provide the requested information in an expeditious manner.

Before or concurrent with the release of the county budget to the public, the county must submit a statement of intent to each incorporated city and town that has requested a property tax setoff. The county statement must include (1) an explanation of the level of the proposed setoff; (2) a description of the information or process used to determine the level of the proposed setoff; and (3) notification that, before the county budget is passed, municipal government representatives may appear before the county governing board to discuss or contest the level of the proposed property tax setoff.

Finally, the law guarantees that representatives of any municipality requesting a tax setoff will be afforded the opportunity to testify before the county governing board during normally scheduled budget hearings of the county.

Recent Legislative Requests

The MML Legislative Committee considered this same request from the Town of Ridgely in 1999 but chose not to recommend the issue for inclusion in the League's legislative program. The Town of Ocean City proposed this same issue in August of 2003; however the Committee elected not to consider the issue because of the lateness of its submission. In 2004 and 2005, the Town of Ocean City submitted the same issue for consideration and the Legislative Committee again declined to recommend the issue to the membership. In 2005 and 2006, the City of Takoma Park submitted a request to enact legislation to provide an appeals process for a municipality in instances where a municipality disputes a determination by a county that double taxation does not exist or where a municipality disputes the level of double taxation setoff that a county offers to provide. The Committee declined to recommend the issue as a League priority. In 2009, Ocean City again recommended this issue as a League priority; the Legislative Committee again declined to recommend the issue to the membership as a priority. A similar legislative request was received and rejected in 2011

In 2008, the MML Legislative Committee Subcommittee on Revenues and the City of Salisbury proposed a legislative request to require counties to provide a property tax setoff where a municipality has demonstrated that double property taxation exists. Other issues they suggested be addressed included: (1) requiring that county officials meet and confer on double taxation issues by January 30 of each year; (2) extending double taxation deliberations to services paid for with other-than-property-tax revenues to ensure that counties may not inaccurately allocate property tax expenditures to non-duplicative services and (3) providing for an appeals process if a county denies that double taxation exists or fails to adequately offset double taxation that both parties agree exists. In 2012 the Committee considered a broader legislative request that in part sought legislation to provide more equitable property tax set-offs for municipalities; the Committee however declined to recommend the issue as a League priority.

Appendix 4: Maryland Code – § 6-305 of the Tax-Property Article

§ 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.

(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.

(2) (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.

(3) (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.

Appendix 5: Montgomery County Code - Chapter 30A – Montgomery County Municipal Revenue Program

Sec. 30A-1. Established.

There is hereby established a program to reimburse municipalities within the county for those public services provided by the municipalities which would otherwise be provided by the county government. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-2. Qualification of municipal public services for county reimbursement.

Municipal public services shall qualify for county reimbursement if the following conditions are met: (1) The municipality provides the service to its residents and taxpayers; (2) the service would be provided by the county if it were not provided by the municipality; (3) the service is not actually provided by the county within the municipality; and (4) the comparable county service is funded from tax revenues derived partially from taxpayers in the participating municipality. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-3. Determination of amount of reimbursement.

Subject to the provisions of section 30A-4, each participating municipality shall be reimbursed by an amount determined by the county executive to approximate the amount of municipal tax revenues required to fund the eligible services. The amount of reimbursement shall be limited to the amount the county executive estimates the county would expend if it were providing the services. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-4. Limitations on expenditures.

All expenditures by the county under the authority of this chapter shall be subject to the limits of the funds appropriated by the county council. (1974 L.M.C., ch. 7, § 1.)

Sec. 30A-5. Application to participate in program.

Any municipality within the county desiring to participate in the county municipal revenue program shall submit not later than November 15 of each year to the county an application which shall be in such form and contain such information as may be required by the county executive. (1974 L.M.C., ch. 7, § 1.)

Introduced: June 19, 1973
Enacted: August 21, 1973
Executive: August 28, 1973
Effective: November 12, 1973

Attachment J

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

June Legislative Session 1973

Chapter 7

AN ACT to add a new Chapter 30A to the Montgomery County Code 1972, title, "Montgomery County-Municipal Revenue Program", to follow immediately after Chapter 30 thereof to empower the County to reimburse any municipality within the geographic boundaries of Montgomery County for services such municipality renders its taxpayers which would be wholly or partly performed for those taxpayers by the County if the municipality did not exist and specifying the factors to be considered and the procedure to be followed.

Be It Enacted by the County Council for Montgomery County, Maryland, that -

Sec. 1. A new Chapter 30A, title "Montgomery County - Municipal Revenue Program", is hereby added to the Montgomery County Code, 1972, to follow immediately after Chapter 30 and to read as follows:

Chapter 30A

Montgomery County - Municipal Revenue Program

30A-1 General. There is hereby established a program to reimburse municipalities within Montgomery County for those public services provided by the municipalities which would otherwise be provided by the County government.

30A-2 Reimbursable Services. Municipal public services shall qualify for County reimbursement if the following conditions are met: (1) the municipality provides the service to its residents and taxpayers, (2) the service would be provided by the County if it were not provided by the municipality, (3) the service is not actually provided by the County within the municipality, and (4) the comparable County service is funded from tax revenues derived partially from taxpayers in the participating municipality.

30A-3 Amount of Reimbursement. Subject to the provisions of Section 30A-4, each participating municipality shall be reimbursed by an amount determined by the County Executive to approximate the amount of municipal tax revenues required to fund the eligible services. The amount of reimbursement shall be limited to the amount the County Executive estimates the County would expend if it were providing the services.

30A-4 Limitations on Expenditures. All expenditures by the County under the authority of this Chapter shall be subject to the limits of the funds appropriated by the Montgomery County Council.

30A-5 Procedures. Any municipality within the County which desires to participate in the Montgomery County - Municipal Revenue Program shall submit not later than November 15 of each year to the County an application which shall be in such form and contain such information as may be required by the County Executive.

Sec. 2. Effective Date. This Act shall take effect on the 76th day following the date on which it becomes law.

APPROVED:

President, County Council — August 22, 1973 — Date

APPROVED:

James P. Gleason

County Executive — August 28, 1973 — Date

ATTEST:

Anna P. Spates

Secretary of the County Council — August 28, 1973 — Date

31-73
75

MEMORANDUM

August 17, 1973

TO: County Council

FROM: Ronald E. Resh, Legislative Counsel RER

SUBJECT: Bills No. 32-73 and 34-73, Municipal Revenue Sharing Program

Materials Attached

1. Bill No. 32-73 proposed by the County Executive, Amendment No. 1 proposed by Mr. Hovsepian, and Amendments 2 and 3 proposed by Mr. Christeller.

2. Bill No. 34-73, proposed by Mr. Christeller, Amendments 1 and 2 proposed by Mr. Christeller, and Amendment 3 proposed by Mr. Hovsepian.

3. Explanatory memoranda from the County Executive on May 25 and from Mr. Christeller on June 8.

4. A memorandum from the County Attorney on August 7 indicating that Bills 32-73 and 34-73 cannot legally be expanded to include town sectors and questioning the validity of Amendment 3 to Bill 32-73 and Amendment 2 to Bill 34-73.

5. A summary of testimony from the public hearing on the subject bills.

Testimony at the Public Hearing

Municipal officials testifying at the public hearing were unanimously in favor of the concept of municipal revenue sharing. Basically, they did not voice a preference for one bill over the other, but they did urge that if an October 1 application deadline is set, whatever is enacted should be made emergency legislation. It was noted that unless the measure took effect immediately after it is signed by the Executive, there would be no way that the proposed October 1 deadline could be met this year.

Issues to be discussed

The Council must decide which of the two bills is to be enacted, which amendments shall be accepted, and whether the measure accepted shall be emergency legislation.

RER/saw

Attachments

Bill No. 32-73

Introduced: June 19, 1973
Adopted:

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

June Legislative Session 1973

By: Council President at the Request of the County Executive

AN ACT to add a new Chapter 30A to the Montgomery County Code 1972, title, "Montgomery County-Municipal Revenue Program", to follow immediately after Chapter 30 thereof to empower the County to reimburse any municipality within the geographic boundaries of Montgomery County for services such municipality renders its taxpayers which would be wholly or partly performed for those taxpayers by the County if the municipality did not exist and specifying the factors to be considered and the procedure to be followed.

Be It Enacted by the County Council for Montgomery County, Maryland, that -

Sec. 1. A new Chapter 30A, title "Montgomery County - Municipal Revenue Program", is hereby added to the Montgomery County Code, 1972, to follow immediately after Chapter 30 and to read as follows:

Chapter 30A

Montgomery County - Municipal Revenue Program

30A-1 General. If a municipality located within the geographic boundaries of Montgomery County, Maryland performs any reimbursable service for its taxpayers which is a service that would be wholly or partly performed for those taxpayers by the County if the municipality did not exist, the County shall establish a program to reimburse any such municipality by the amount which a municipality must raise from its own taxes to provide the eligible service.

30A-2 Procedure. Any municipality within the County which desires to participate in the Montgomery County - Municipal Revenue Program with the County shall submit annually to the County Executive an application which shall be in such form and contain such information as may be required by the County. A reimbursable service qualifies if (1) the municipality provides the service to its taxpayers, (2) the service would be provided by the County if the service were not provided by the municipality, and (3) the service is not actually provided by the County within the municipality.

30A-3 Limitations on Expenditures. All expenditures authorized by the County for purposes of this Chapter shall be subject to the limits of the funds appropriated by the Montgomery County Council.

Sec. 2. Effective Date. This Act shall take effect on the 76th day following the date on which it becomes law.

MJH/lg

Proposed by: Councilman Hovsepian

Amendment No. 1

to

Bill No. 32-73

Municipal Revenue Sharing

Re. Submission of Applications by Municipalities

On page 2 of the bill, line 15, delete the word "annually" and insert in lieu thereof the words "not later than October 1 of each year."

Proposed by: Councilmember Christeller

Amendments No. 2 and 3

to

Bill 32-73

Municipal Revenue Sharing

Amendment No. 2

On page 2 of the bill, line 20, strike the word "and". In line 21, strike the period and add the following language:

", and (4) the comparable County service is funded from tax revenues derived partially from taxpayers in the participating municipality."

Amendment No. 3

On page 2 of the bill, Section 30A-3, strike the language in lines 22 through 24 and insert in lieu thereof the following:

"30A-3 Limitations on Expenditures.

The amount of reimbursement shall be limited to the amount the County Executive estimates the County would expend if it were providing the services; provided, however, that the County Executive may authorize a minimum grant without regard to this limitation, but subject to such limitation as the County Council may prescribe in its approval of the budget or appropriation of funds."

Bill No. 34-73

Introduced: June 19, 1973
Adopted: 8/21/73

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

Legislative Session 1973

By: County Council.

AN ACT to add a new Chapter 30A to the Montgomery County Code 1972, title, "Montgomery County-Municipal Revenue Program", to follow immediately after Chapter 30 thereof to empower the County to reimburse any municipality within the geographic boundaries of Montgomery County for services such municipality renders its taxpayers which would be wholly or partly performed for those taxpayers by the County if the municipality did not exist and specifying the factors to be considered and the procedure to be followed.

Be It Enacted by the County Council for Montgomery County, Maryland, that -

Sec. 1. A new Chapter 30A, title "Montgomery County - Municipal Revenue Program", is hereby added to the Montgomery County Code, 1972, to follow immediately after Chapter 30 and to read as follows:

Chapter 30A

Montgomery County - Municipal Revenue Program

30A-1 General. There is hereby established a program to reimburse municipalities within Montgomery County for those public services provided by the municipalities which would otherwise be provided by the County government.

30A-2 Reimbursable Services. Municipal public services shall qualify for County reimbursement if the following conditions are met: (1) the municipality provides the service to its residents and taxpayers, (2) the service would be provided by the County if it were not provided by the municipality, ~~and~~ (3) the service is not actually provided by the County within the municipality. Insert 1

30A-3 Amount of Reimbursement. Subject to the provisions of Section 30A-4, each participating municipality shall be reimbursed by an amount determined by the County Executive to approximate the amount of municipal tax revenues required to fund the eligible services. Insert 2

30A-4 Limitations on Expenditures. All expenditures by the County under the authority of this Chapter shall be subject to the limits of the funds appropriated by the Montgomery County Council.

30A-5 Procedures. Any municipality within the County which desires to participate in the Montgomery County - Municipal Revenue Program shall submit ~~annually~~ Insert 3 to the County an application which shall be in such form and contain such information as may be required by the County Executive.

Sec. 2. Effective Date. This Act shall take effect on the 76th day following the date on which it becomes law.

Proposed by: Councilmember Christeller

Amendments to Municipal Revenue Sharing

Bill No. 34-73

Amendment No. 1

Section 30A-2, line 13, strike the word "and"; line 15, strike the period and add "Insert 1, and (4) the comparable County service is funded from tax revenues derived partially from taxpayers in the participating municipality."

Amendment No. 2

Section 30A-3, add the following sentence at the end of line 19: Insert 2 "The amount of reimbursement shall be limited to the amount the County Executive estimates the County would expend if it were providing the services~~, provided, however, that the County~~ Executive may authorize a minimum grant without regard to this limitation, but subject to such limitation as the Council may prescribe in its approval ~~of the~~ budget or appropriation of funds."

Amendment No. 3

Section 30A-5, line 25, delete the word "annually" and insert in lieu thereof Insert 3 the words "not later than ~~October 1~~ Nov. 15 of each year."

MEMORANDUM

June 8, 1973

TO: Council Members

FROM: Norman L. Christeller

SUBJECT: Municipal Revenue Sharing

I can readily endorse the concepts contained in the proposed "Montgomery County-Municipal Revenue Program", but I have problems with the draftsmanship in the bill we have been asked to consider. These problems include the following:

1. The draft bill does not correspond to the specifics of the Executive's memorandum nor those of the staff paper transmitted therewith. For example, the bill does not appear to authorize the suggested $1,000 floor nor does it appear to authorize the 2/3 allowance contained in the Executive's summary.

2. The draft bill provides no protection against profligate action by a municipality.

3. The draft bill does not explicitly limit the grants to municipal services which parallel County services funded by tax revenues derived partially from the municipal residents.

4. The organization and syntax of the draft bill need attention.

In order to address these problems, I have (1) re-drafted the proposed bill to put it in better form without changing its content and (2) drafted two amendments which are intended to eliminate the first three problems noted above.

NC/pos

Attachments

M E M O R A N D U M

August 7, 1973

TO: William Sher, Council President

FROM: Richard S. McKernon, County Attorney

SUBJECT: Expansion of Bills 32-73 and 34-73 to Include Town Sectors

You asked for immediate advice as to whether or not the authority of the County would extend to granting revenue sharing to such private organizations as the homeowners' organizations in town sector zones and planned retirement communities. You ask whether or not Bills 32-73 and 34-73 could be expanded without other advertising to include such organizations.

The answer as to notice is that the particular bills may not be expanded to include such private organizations and, therefore, new bills must be introduced.

This office is, at this time, of the opinion that the County may not grant funds or expend public money to support the private activities of citizens within the town sectors or planned retirement communities. A formal opinion will follow.

You should also be advised that Councilmember Christeller's amendment number 2 to Bill 34-73 and amendment number 3 proposed to Bill 32-73 are suspect as to validity. This office has held that the County may not grant to municipalities or reimburse municipalities in excess of the amount of money which the County would expend if it were, in fact, providing the municipal services. The proposed amendments apparently would allow the Council to set any amount of grant by appropriation without regard to a limitation. There is no authority which we can find under any of the statutory provisions of the State Code, local laws or the Charter which would allow the County Council to take money from County taxpayers for the subsidization of taxpayers who are residents of municipalities.

The County Executive is aware of this limitation, and it has been conveyed to the municipalities in at least one meeting at which Assistant County Attorney Martin Hutt discussed the subject with officials of the municipalities.

RSMcK/ARC/sg

cc: Norman Christeller
Ron Resh

Summary of Testimony
on
Bills 32-73 and 34-73
MUNICIPAL REVENUE SHARING

July 31, 1973

1. John Short, Representing the County Executive

Mr. Short indicated that the Executive branch prefers Bill 32-73, the Executive's proposal, but would have no objection to Mr. Christeller's Bill 34-73. The Executive branch urges that no specific deadline for filing be included in the bill. It is feared that this would make the provision too restrictive and could conceivably rule out an otherwise appropriate application if it were to be filed late. The Executive branch believes that this matter can be handled administratively.

2. Councilman James R. Shay, Representing the Montgomery County Chapter of the Maryland Municipal League

Councilman Shay recommends approval of either measure. However, he believes that the proposed amendments dealing with the October 1 application date could be a problem. Unless whatever bill is enacted is enacted as emergency legislation, the normal 76 day effective date would extend past October 1 of this year and would therefore render application impossible if the October 1 date would be specified in the bill. He suggests that either Bill 34-73 be enacted as emergency legislation or Bill 32-73 be enacted as it is without the specified application date. He supports the concept of emergency legislation, citing the urgent need by the municipalities to know what funds will be available, and he also urges the adoption of a supplemental appropriation as soon as possible.

3. Mr. William Austin, Chevy Chase Village

Mr. Austing supports Councilman Shay's statement and urges the Council to keep the application time flexible. He also supports enactment of emergency legislation.

4. Captain J. E. Dolan, Town of Garrett Park

Captain Dolan likewise spoke in support of these measures and indicated that the October 1 application date would be agreeable if there would be emergency enactment. If not, the application date should be left flexible.

5. Mayor Harold C. Morris, City of Gaithersburg

Mayor Morris supports Mr. Shay's remarks and also supports the concept of emergency legislation.

6. Mr. Robert Shewmaker, Montgomery Village Citizens Association

Mr. Shewmaker urges the Council to expand the provisions of these bills to include town sectors that provide services similar to municipal services for their residents. He pointed out that the homeowners in such areas are legally obligated to contribute toward the payment of these services. He believes either bill could be amended to extend this coverage. He feels if town sectors are not included, he and his association would not support either bill because of the inequity this would perpetuate.

Discussion then ensued as to whether such coverage should be expanded to include planned retirement communities as well as other projects having internal streets, etc. maintained by those residents.

It was agreed to ask the County Executive and the County Attorney to comment on the suggested expansion of these bills.

7. Mayor J. S. Goldberg, Town of Somerset
Mayor Goldberg supports these measures and urges that adoption be as emergency legislation.

8. Mayor John D. Roth, City of Takoma Park
Mayor Roth supports these measures and urges adoption as emergency legislation.

9. Mayor Matthew McCartin, City of Rockville
Mayor McCartin supports these measures and pointed out the need to have some idea of what funds would be available as soon as possible. He urges that whatever is enacted be done as emergency legislation.

Office Of The County Executive

MEMORANDUM

Date May 25, 1973

To County Council

From James P. Gleason, County Executive

Subject: Montgomery County Municipal Revenue Program

Over the past year, I have explored with the Municipal Advisory Board possible inequities existing in the taxes paid by municipal and non-municipal County residents. We have concluded after careful analysis that municipal citizens pay twice for certain services - to the County and to their local jurisdiction - while receiving these services only from the municipality.

I am proposing, therefore, a new "Montgomery County Municipal Revenue Program" to overcome this inequity. Under this program, the County would return annually to each municipality an amount equal to the estimated duplicated taxes paid by its residents for eligible services. The approximate impact in FY 74 on municipalities would vary from a minimum of $1,000 to a high of $190,000-$200,000 depending on final calculations using FY 73 data. The total cost to the County in FY 74 is estimated at $260,000-$300,000.

To establish this new initiative in intergovernmental relations, new legislation must be added to the Montgomery County Code. My proposed legislation, attached herewith, would establish the program; provide that the County, subject to budgetary constraints, shall reimburse municipalities for duplicated taxes paid by their residents; and set forth criteria for determining eligible services. No law exists at present to enable the County to begin such a program.

While I am not proposing this as emergency legislation, I urge the Council to expedite deliberations on this bill in order that once it becomes effective a supplemental appropriation, to be funded from unappropriated surplus earmarked by the Council, can be acted upon and payments can be made to the municipalities in the fall.

SUMMARY

MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM

May 29, 1973

PROJECT BACKGROUND

- Have attempted to identify services for which municipal residents may be paying twice;
- Have focused on street-related services;
- Proposal ready for Council action.

PROPOSAL FOR FY 74:

- Grant to municipalities, whichever is greater:
  - $1,000, or
  - Two-thirds the amount the municipality must raise from its own taxes to provide the eligible services.
- In future years, County will take over performance of services upon municipality's request by October 1 of preceding FY;
- Grant requires legislation and supplemental appropriation.

SCHEDULE

- May: submission of legislation to County Council.
- June - July: Council deliberations, enactment.
- August - September: submission of FY 73 data by municipalities.
- September: legislation effective.
- September: submission of supplemental appropriation request by County Executive.
- October: passage of supplemental appropriation and payments to municipalities.

FINAL REPORT ON THE MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM

Prepared for Presentation at Meeting of
May 24, 1973 With Representatives of the Municipalities Advisory Board

Since the February meeting, the County staff, with the assistance of municipal officials, has refined its analysis of possible tax duplications existing between the County and municipalities. The results of that effort are shown on the attached pages. This report has been prepared to supply municipal representatives with the findings to date and to serve as a final proposal, outlined below, for removing the tax inequities found to exist.

Additional analysis has supported the initial conclusion that tax duplication was limited to the service areas of street maintenance, curb and gutter work, sidewalk repair, snow removal, street lighting, and traffic control. Municipal net expenditures for these services in FY 72, from local funds and after the deduction of applicable shared revenues, ranged from $-0- to $283,450, for a total of $379,900. These net expenditures in many cases include provision of a service level comparable to that of the County, supplementary levels of service desired by municipal residents, and/or diseconomies related to the municipalities' smaller size. Consequently, further adjustments as described in Appendix B on Methodology, beyond the deduction of shared revenues, must be made to determine the extent of actual tax duplication.

Several methods of overcoming tax inequities have been explored. One of these is the assumption by the County of service currently performed by municipalities. Another is a direct grant from the County to municipalities in an amount calculated to remove the inequity. In the latter case, it should be pointed out that County legislation will be required, in addition to a budget appropriation, before such grants can be paid.

As a result of the County staff's analysis, the data presented in Appendix A illustrate the method of calculation and the impact on the municipalities. The amounts in the "Impact" columns assume a grant to each municipality of $1,000 or two-thirds of net expenditures for street-related services, the two-thirds factor being used to recognize that any grant would be smaller than the net expenditures (except for the $1,000 floor) because of municipal supplementary service or diseconomies.

The final proposal is as follows:

1. The County will assume at the beginning of the FY (July 1) the performance of any or all of the street-related services considered in this study upon request of the municipality provided the request is made in writing no later than the preceding October 1st; or

2. The County will provide a direct grant of the following amounts, whichever is greater:

   a. $1,000; or
   b. the estimated tax overlap defined as two-thirds the amount which a municipality must raise from its own taxes to provide the eligible services.

   Calculations of the direct grant for FY 74 will be made by the County based on FY 73 data supplied by the municipalities in a form and manner prescribed by the County.

In order for grants to be paid, legislation will be proposed to the County Council for enactment this summer. Subsequent to passage of the legislation, a supplemental appropriation will be recommended by the County Executive. The amount and timing of this supplemental will depend in part on timely receipt from the municipalities of data for year ending June 30, 1973. Assuming passage of the supplemental appropriation, payments would be made to the municipalities.

Appendix A

MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM a/

Municipality	Calculation of Overlap: Municipal Expenditures: Road-Ways	Signs, Traffic Devices	Street Lighting	Total Expend	Less: Shared Gas, Racing Rev.	Less: Shared Inc. Tax, Other Rev.	Est. Net Expend.	Amt. Tax Overlap for Discon. Suppl. Serv. c/	Est. Overlap, County Level of Serv. c/	Impact of County Grant Proposal (Illust. only): Amount	Mun. Tax Rate Equiv.
Barnesville	167		1,021	1,188	(713)	(254)	221	74	147	1,000	15¢
Brookeville	4,075		700	4,775	(482)	(4,186)	107	36	71	1,000	18¢
Chevy Chase #3	5,746	173	1,657	7,576	(3,755)	(1,785)	2,036	678	1,356	1,360	2¢
Chevy Chase #4	36,878	1,915	6,115	44,908	(10,025)	(13,872)	21,011	6,997	14,014	14,010	7¢
Chevy Chase Village	6,640		10,119	16,759	(15,272)	(700)	787	262	525	1,000	4/10¢
Martin's Add, Ch.Ch	6,616		2,189	8,805	(6,249)	(1,215)	1,341	447	894	1,000	1¢
Vill of N. Ch. Ch.	7,639		1,411	9,050	(3,446)	(242)	5,361	1,786	3,575	3,580	9¢
Gaithersburg	87,748	2,503	15,152	105,403	(34,193)	(34,234)	36,976	12,313	24,663	24,660	2¢
Garrett Park	9,789		2,120	11,909	(9,037)	(1,614)	1,258	419	839	1,000	2¢
Glen Echo	485	499	1,702	2,686	(2,282)	(152)	252	84	168	1,000	7¢
Kensington	73,792	400	11,731	85,923	(15,160)	(77,763)	b/ (7,000)	(2,331)	(4,669)	1,000	4/10¢
Laytonsville	946		1,404	2,350	(1,160)	(1,253)	b/ (63)	(21)	(42)	1,000	6¢
Oakmont	8		493	501	(299)	(485)	b/ (283)	(94)	(189)	1,000	10¢
Poolesville	544		1,988	2,532	(1,613)	(860)	60	20	40	1,000	2¢
Rockville	408,151	75,709	100,300	584,160	(194,860)	(105,850)	283,450	94,389	189,061	189,060	5¢
Somerset	15,559		3,737	19,296	(4,948)	(4,476)	9,872	3,288	6,584	6,580	5¢
Takoma Park	64,452	1,151	23,754	89,357	(59,121)	(5,516)	24,720	8,232	16,488	16,490	3¢
Washington Grove	3,588		1,716	5,304	(5,353)	(159)	b/ (208)	(69)	(139)	1,000	2¢
TOTAL	732,823	82,350	187,309	1,002,482	(367,968)	(254,616)	379,898	126,510	253,388	266,740	-

Median Grant $1,000

Median Tax Rate Equivalent 3¢

a/ Prepared by Montgomery County Budget and Research Section, February - May 1973. See Appendix on Methodology for explanation of calculations.

b/ Negative amount indicates no local tax funds required.

c/ See appendix on Methodology.

Appendix B

MONTGOMERY COUNTY MUNICIPAL REVENUE PROGRAM

METHODOLOGY AND GENERAL COMMENTS

In the Fall of 1972, County Executive James P. Gleason directed the Montgomery County Budget and Research Section to examine, with the assistance of the County's municipalities, local government services and fiscal burdens affecting residents of municipalities compared with County citizens living outside incorporated areas. This study originated in the growing concern on the part of the County Executive and municipal officials that municipal residents were suffering a tax inequity by being taxed twice, once by the County and again by their municipal government, but receiving services only once.

Drawing primarily on the FY 1972 State Fiscal Research Bureau reports and other supplementary information submitted by the municipalities, as well as on the assistance of the County Departments of Transportation and Finance, the Budget Office has attempted over the past several months to clarify both service and fiscal situations currently affecting municipal residents vis-a-vis their non-municipal counterparts. The examination has focused on four aspects: a) the determination of service areas where tax duplication may exist; b) the calculation of the estimated overlaps; c) the development of alternatives to overcome duplications and d) the fiscal impact, on both the County and the municipalities, of the various alternatives. The methodology and certain general comments on each of these aspects are outlined below in support of the data and conclusions shown in the preceding portions of this report.

Determination of Service Areas Where Tax Duplication Exists:

The examination of services centered on identifying those for which municipal residents were paying both to the County and to their local government but which were being provided only by the municipalities; i.e., those for which tax duplication existed. The following criteria were used:

1. Municipal "General Government" and "Miscellaneous" activities (the latter including insurances and miscellaneous items) were excluded on the grounds that these are a basic requirement for citizens wanting their own special local government.

2. Only municipal services which correspond to County General Fund - financed services were eligible for consideration since residents of incorporated areas neither receive services from, nor pay taxes to, special districts such as the Suburban District or in certain cases, the Recreation District.

3. Only municipal services which correspond to tax-supported County services were eligible since municipal residents' taxes are not used to finance self-supporting County activities such as protective inspections, animal control, and refuse collection.

4. Only levels of municipal service comparable to that provided by the County outside incorporated areas would be eligible. Expenditures for supplementary levels or for diseconomies related to the municipalities' smaller size were considered the responsibility of municipal residents. An example is the police service provided by several municipalities which was considered supplementary to that supplied by the County both inside and outside local boundaries.

These criteria were applied in the review of both municipal and County services in the search for possible tax overlaps. It should be noted here that the existence of similarly-named functions in both the County and a municipality does not necessarily mean that duplication exists or that municipal residents receive no benefit from the County service. Many County services, such as environmental protection, regardless of the location of specific projects, affect the general condition of the County and have "spill-over" benefits to incorporated areas. Consequently, they should be supported in part by County tax revenue from municipal residents.

Based on this analysis, tax duplication appeared to exist in the service areas of street maintenance, curb and gutter work, sidewalk maintenance and snow removal - all of which are included in the Roadways category in Appendix A of this report. In addition, traffic control and street lighting were involved.

Calculation of Estimated Tax Duplication or Overlap

Tax duplication was defined to mean that amount of local funds that municipalities must raise from their own resources to provide the County level of service within their boundaries. To reach this figure, total municipal expenditures for the services listed above were compiled. Certain deductions were then made. These deductions are based on the fact that because they are in existence, and perform certain services, municipalities are entitled by law to receive certain shared revenues which otherwise would go to the County.

These revenues include State-shared gasoline tax and motor vehicle registration revenue and State-shared racing revenue, both of which are ear-marked for use on street-related services. In addition, a portion of County-shared income taxes, traders' permit fees, admission/amusement taxes, and payments in-lieu-of bank shares taxes, all of which may be used as municipalities choose, are distributed to municipalities instead of to the County. The sharing of these revenues with municipalities reduces the funds that must be raised from local sources for street-related services, and in effect represents a return to municipalities of all or a portion of the County taxes their residents pay for the County level of those same services. Therefore, to derive the net expenditures for the services in question, applicable portions of ear-marked and other shared revenues were subtracted from total expenditures for those services. (In several cases, at least in FY 72, negative amounts resulted indicating that shared revenues more than covered municipal expenditures with no local funds required).

One other calculation must be made at this point to determine what portion of the net expenditures is due to diseconomies resulting from the municipalities' smaller size or to the provision of supplementary levels of service. This can be found by comparing the total expenditures of a municipality for the services in question with the estimated cost to the County of providing the County level of service within that municipality, finding the percentage that the difference represents of the municipality's total street expenditures, and multiplying that percentage times the net expenditures. This will determine that portion of the net expenditures attributable to diseconomies or supplementary service. The balance is the amount of overlap resulting from the provision by the municipality of the County's level of service within its own boundaries. It is this latter amount which represents the degree of tax inequity existing. (Note: If a municipality spends less than the estimated cost to the County of providing the service, the difference would result from the provision of a lower level of service or the same level more efficiently.)

The above calculations assume the availability of accurate, comparable data from the County and the municipalities. Experience has indicated that such information would be very difficult to come by. Therefore, a factor of two-thirds was applied against net expenditures to estimate the municipality's expenditures to provide the County level of service. The remaining one-third is assumed to represent that portion of net expenditures related to diseconomies of scale or supplemental levels of service. These calculations notwithstanding, a minimum grant of $1,000 is proposed. This "floor" recognizes the efforts made by municipalities and the possibility that the fiscal data available, no matter how accurate, might not fully describe those efforts.

Development of Alternatives for Overcoming Existing Inequities

Several means were explored of reducing or eliminating tax duplications found to exist. One method would be the assumption by the County of services currently provided by municipalities. This would be beneficial to residents of incorporated areas in those cases where the County, due to economies of scale, could provide the service at lower cost. On the other hand, if municipal residents want a higher level of service than the County normally provides, they might want to continue supplying the service themselves. In addition, many of the same men and pieces of equipment are used by municipalities to provide services which the County provides via the Suburban District Fund, e.g., street cleaning and tree care. For municipalities to request these services from the County, they would need to pay the Suburban District tax (8¢ in FY 73).

An alternative to County assumption of municipal services is the payment of direct grants to municipalities in an amount calculated to overcome the tax inequities. The calculation of the inequities is discussed above; the amount of the grants would be the same unless adjusted by provision of a minimum or maximum limit.

Fiscal Impact of Grants

The fiscal impact on municipalities, both the dollar amount and the local tax rate equivalent, is shown on Appendix A for an illustrative proposal that would provide a $1,000 floor payment or two-thirds the net expenditures made for streets. The total impact on the County of the illustrative proposal would be approximately $267,000.

Resolution No. 8-2222

Introduced: October 17, 1978
Adopted: October 17, 1978

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

By County Council

SUBJECT: Report of the Task Force on County-Municipality Financial Relationships and Revisions to the Municipal Revenue Program

WHEREAS, Chapter 30A of the Montgomery County Code 1972, as amended, provides for a Municipal Revenue Program to reimburse the municipalities and special taxing areas within the County for those public services provided by the municipalities and special taxing areas which would otherwise be provided by the County government; and

WHEREAS, the County Code details the conditions under which municipal public services qualify for reimbursement; and

WHEREAS, The Task Force, through work sessions with municipality and County staffs, has determined that the reimbursement procedure currently used by the County requires clarification and simplification;

NOW, THEREFORE, BE IT RESOLVED, by the County Council for Montgomery County, Maryland that commencing in Fiscal Year 1979 reimbursement for street related expenditures shall be based on:

1. Submission to the County by each municipality and special taxing area now participating in the Municipal Revenue Program, a copy of the annual certified road mileage used by the State for calculating the sharing of gasoline and motor vehicle taxes.

2. Calculation by the County of the County's budgeted funding per mile for the operation and debt service of non-municipal County roads.

3. The County funding per mile budgeted for the operation and debt service of County roads multiplied by the road mileage of each municipality participating in the Municipal Revenue Program.

AND BE IT FURTHER RESOLVED that commencing in Fiscal Year 1980 the debt service costs for County recreation projects shall be funded by the County Recreation District tax consistent with County Charter provisions then in effect;

AND BE IT FURTHER RESOLVED that this is regarded as a basic fiscal commitment of the County to provide greater tax equity for County taxpayers inside and outside the municipalities, but severe fiscal restraints might prevent 100% funding.

AND BE IT FURTHER RESOLVED that the County Council intends that the funds provided by this program be used to provide relief in municipal tax rates and expects such relief to take place;

AND BE IT FURTHER RESOLVED that the municipalities and special taxing areas shall provide an annual report to the County Council indicating the effect of the use of these funds;

AND BE IT FURTHER RESOLVED that the current Municipal Revenue Program submission forms and calculation formula are hereby superseded.

A True Copy

ATTEST:

Anna P. Spates

Anna P. Spates, Secretary
of the County Council for

M E M O R A N D U M

September 28, 1978

TO: County Council

FROM: Task Force on County-Municipality Financial Relationships

SUBJECT: Report and Recommendations

At the conclusion of our last meeting on August 24, 1978 we had reached conclusive agreement on several areas and that additional staff work needed to be done on one other area. Specifically, the following was agreed:

A. What is reimbursable to the municipalities and tax districts?

1. Street related operating and debt service expenditures incurred by municipalities should be reimbursed by the County on some uniform basis. However, the current formula used by the County is cumbersome, not easily understood, and some of the data is subject to arbitrariness. It is recommended that a new formula be devised.

2. Park and Recreation Debt Service for County projects should be paid by the Recreation District tax. Currently this is budgeted in the General Fund and contains a duplication for municipalities that provide their own recreation facilities. If the charter amendment known as question E is approved, it is understood that a vote of 6 Councilmembers would be required to implement this recommendation. This category of Debt Service includes about half for Recreation Projects and half for Non-Local Park acquisition and development.

3. Code enforcement is performed to varying degrees of comprehensiveness and intensity by the County and the municipalities. Municipality and County staff should reach as detailed an agreement as possible on County-Municipality responsibilities and eligible reimbursements for municipalities where there are displacements of County funded services.

County Council
September 28, 1978
Page 2

4. Rockville operates social service programs at the Lincoln Park Center which probably should be a County responsibility and should be compensated for this service provision. It does not appear clear that this should be a reimbursable item; this program may be supplemental at the City's choice.

5. The subject of rebates to the City of Takoma Park for Police, school crossing guard, and library services will be re-examined for determining a more accurate formula.

6. Administrative overhead will not be an area for discussion of duplication since it is unlikely that agreement could be reached before discussion would service diminishing returns.

B. How will reimbursements be determined?

1. Beginning in FY 79 street related operating and debt service costs, municipalities will submit to the County annually road mileages of streets within their boundaries certified to the State. It is understood that these mileage figures are prepared by jurisdictions in December and County payment should be made in January. The formula will use the budgeted County cost per mile for operating and debt service and this payment will be for the same cost per mile for the number of miles certified in each municipality.

2. As noted above, beginning with the FY 80 Executive Recommended Budget, debt service for projects administered by the County Department of Recreation will be budgeted in that department and funded by the Recreation District Tax.

3. In the case of special programs operated in lieu of or supplementing County programs such as Youth Services, Senior Services, and Human Rights, arrangements for a contractual service, contribution or reimbursement will be made between the municipality and the County agency concerned. A negotiating and review committee will include representatives from the municipalities, County agency, a County Council person and a volunteer citizen. The funds for providing the service will be budgeted in the Municipal Revenue Program appropriation and not in the County agency providing or administering the service.

4. Municipal and County representatives have discussed but not resolved the issue of municipality-County responsibilities in the areas of code enforcement. Current thinking of the staff is to devise a formula using five code enforcement areas of housing, animal control, construction standards,

public facility licensing and inspection, and air and water pollution and a) determining areas of responsibilities and whether ordinance changes are required and recommended b) total cost of the County to perform this service where it is doing so and calculating a unit cost compared to a common easily counted denominator such as dwelling units or property tax accounts, and c) factor this unit cost if the municipality is performing the function times the number of units, dwelling or tax accounts, to calculate the reimbursement similar to the street related expenditure formula. County staff will coordinate with municipal staff a recommendation to Council to be included with the FY 80 budget.

Enclosed is a draft resolution to implement recommendations for your consideration.

JWS:eb

Attachments: Memorandum to John Short from Robert Burns, re Road Maintenance Cost Comparisons, dated April 28, 1978.

Memorandum to John Short from Robert Burns, re Analysis of Road and Storm Drain Debt Service, dated April 20, 1978.

Draft Resolution - Subject "Report of the Task Force on County Municipality Financial Relationships and Revisions to the Municipal Revenue Program".

CC: Muncipalities
Task Force Members
County Executive

M E M O R A N D U M

April 28, 1978

TO: John W. Short

FROM: Robert B. Burns

SUBJECT: Road Maintenance Cost Comparisons

A. Department of Transportation Gross Budget	$16,559,420
1) Less charges to:	
Suburban District	201,430
Capital Projects	1,374,670
Mass Transit Fund	60,470
Parking Lot Districts	3,750
Subtotal Net Budget	$14,919,100
2) Less Activities considered by County to benefit Municipal Residents:	
a) Office of the Director	205,280
b) Office of Administrating Services (one-half)	47,950
c) Division of Transportation Engineering (one-Half)	829,735
d) Office of Transportation Planning	191,480
e) Division of Traffic Engineering less utility expense of street lights and signals	1,550,420
Subtotal Gross Duplication	$12,094,235
3) Less Other Sources of Funds:	
a) Vehicle, fuel and road taxes receipts applied to maintenance	3,454,500
b) Less one-half storm drain tax applied to maintenance	269,000
c) Less race track receipts	410,000
d) Less State signal maintenance reimbursements	128,750
e) Less subdivision fees	225,000
f) Less Transportation Planning Grant	8,950
Net tax duplication	$7,598,035
Total Road Miles	1,631
Cost per mile	4,658
Times 202 miles of municipal streets (current estimate)	940,916

Note of 9/28/78

The above figures include recommended figures shown in the budget document and will be adjusted to reflect the cost of living increase and any other changes.

M E M O R A N D U M

April 20, 1978

TO: John W. Short, Director, Budget & Research

FROM: Robert Burns, Budget Analyst

SUBJECT: Analysis of road and storm drain debt service

Gross Debt	$6,306,792
Less Special Assessments	425,000
Less fuel and road tax allocation, portion not used in General Fund for Highway Maintenance	3,895,500
Less 1/2¢ storm drain tax	269,000
Net Debt Support from General Fund	$1,717,292
Cost per 1,631 miles of County streets	1,052
Cost per 202 miles of Municipal streets (current estimate)	212,504

RBB:eb

Resolution No. 8-1648

Introduced: November 22, 1977
Adopted: November 22, 1977

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

By County Council

Subject: Task Force on County-Municipality Financial Relationships

WHEREAS, Chapter 30A of the Montgomery County Code 1972, as amended, provides for a Municipal Revenue Program to reimburse the municipalities within the County for those public services provided by the municipalities which would otherwise be provided by the County government; and

WHEREAS, the County Code further details the conditions under which municipal public services qualify for reimbursement; and

WHEREAS, for fiscal years 1974 through 1977 the County has reimbursed the municipalities a total of $1,570,000; has appropriated $425,000 for fiscal year 1978; and earmarked $200,000 in the FY 1978 unappropriated surplus; and

WHEREAS, the County Council, County Executive, and the Montgomery County Chapter of the Maryland Municipal League have discussed the Municipal Revenue Program and have agreed that the current program should be studied in detail to insure that the program is equitable and achieving its objectives;

NOW, THEREFORE, BE IT RESOLVED that -

The Task Force on County-Municipality Financial Realtionships is hereby established. This will be a task force of eight members appointed by the County Council for a term of not more than six months or until the final report of the Task Force is completed. The Task Force will be composed of four elected officials designated by the Montgomery County Chapter of the Maryland Municipal League; three members of the Montgomery County Council, and the County Executive or his designated representative.

AND BE IT FURTHER RESOLVED that -

The Task Force shall examine in detail and make recommendations concerning the following:

1. Identify the public services provided for municipal residents by both County municipalities and the County government;
2. For each program identified above, determine its municipal and County cost, the level of service provided by each government, and the beneficiaries of the service;
3. For those services currently duplicated, determine whether the County or the municipality should be the primary provider or how the responsibilities might be divided, taking into account where State law assigns a responsibility to the County.
4. Identify the technical services and expertise that the County could make available to the municipalities when a municipality requests such assistance.
5. Evaluate the present Municipal Program in the context of the above information.

Resolution No. 8-1649

Introduced: November 22, 1977
Adopted: November 22, 1977

COUNTY COUNCIL

FOR MONTGOMERY COUNTY, MARYLAND

By County Council

Subject: Appointments to the Task Force on County-Municipality Financial Relationships

NOW, THEREFORE, BE IT RESOLVED by the County Council for Montgomery County, Maryland that the following persons are hereby appointed to serve as members of the Task Force on County-Municipality Financial Realtionships:

Walter Behr
Mayor of Somerset

Miner Buell
Councilman
Oakmont Special Taxing District

Phyllis Fordham
Councilwoman
City of Rockville

John Roth
Mayor of Takoma Park

Norman L. Christeller
Montgomery County Councilman

Dickran Y. Hovsepian
Montgomery County Councilman

Neal Potter
Montgomery County Councilman

John W. Short
County Executive's Representative

A True Copy.

ATTEST:

Anna P. Spates

Anna P. Spates, Secretary
of the County Council for
Montgomery County, Maryland

Resolution No. 8-1648

AND BE IT FURTHER RESOLVED that -

The Task Force complete its work and submit its report and recommendations not later than April 15, 1978.

A True Copy

ATTEST:

Anne P. Spates

Anne P. Spates, Secretary
of the County Council
for Montgomery County, Maryland

1978 Proposed TRIM Amdmt to Charter

10/17/78

Councilman Menke stated that he calculates that approximately 9% of the rental units covered by the guideline system will not receive any rent increase during this year.

(The Council recessed at 1:40 P.M., and reconvened at 2:40 P.M.)

Resolution No. 8-2222

Re: Report of the Task Force on County-Municipality Financial Relationships and Revisions to the Municipal Revenue Program

The Council had before it for consideration a draft resolution by the Task Force on County-Municipality Financial Relationships and Revisions to the Municipal Revenue Program regarding implementation of reimbursement to municipalities and special taxing areas within the County for those public services provided these jurisdictions which would otherwise be provided by County government.

Councilman Potter described the intent of the resolution as an interim step in the development of a program for a more equitable distribution of the tax burden. The transfer of funds to municipalities and special taxing areas would avoid double payment by taxpayers in some categories, principally road maintenance. Mr. Potter referred to a question having been raised as to whether the formula being applied would be binding for the future and stated that there is no legal basis for compelling the Council to appropriate funds for distribution in this manner. He stated that, in his view, there is a moral obligation for reimbursement and the resolution was drafted to indicate this is proper policy and that it will be accomplished unless enactment of TRIM interferes with the availability of funds.

Councilman Colman proposed amending the resolution before the Council with the statement that it would be unwise and unfair to establish this program in a preferred status to all County expenditure programs for FY1980 and beyond when the County could be faced with a budget deficit, as well as a future deficit in the event of enactment of TRIM, as follows:

(1) first "Be It Resolved" clause - final wording: "NOW, THEREFORE, BE IT RESOLVED, by the County Council for Montgomery County, Maryland, that reimbursement for street related expenditures in FY1979 should be based on:

(2) first "Be It Further Resolved" clause - delete [commencing in FY80], substituting for FY79.

Councilman Colman suggested that an amendment be developed to modify future commitment to 100% mileage refund. He expressed the opinion that this is necessary in the interest of equity regarding conflicting and competing priorities which the succeeding Council will be faced with.

Councilman Potter recommended against Councilman Colman's suggested amendments (1) and (2) above because the wording of the clauses relates to a "transfer" of funds only and is not of vital importance to the average taxpayer; however, it will provide substantial relief for municipal taxpayers because it will eliminate payment of that General Fund debt service. Councilman Colman withdrew his proposed amendments.

Councilman Colman stressed the need, in his opinion, for all programs to compete equally for budget funding, i.e., social services, rent supplements, police services, etc.

Councilman Potter referred to being hopeful that the County can avoid a fiscal situation necessitating funding of less than 100% reimbursement to municipalities and special taxing districts inasmuch as the funds at issue are not actually expenditures but a transfer of funds to ease the burden resulting from double tax payments by residents of these jurisdictions and should be given high priority, except for serious emergencies.

President Scull pointed out that the subject funds really belong to the municipalities and special taxing districts.

Councilman Menke moved, duly seconded, that the Council consider insertion of an additional "Be It Further Resolved" clause, as follows: "Every effort shall be made by the County government to fund fully computed revenue sharing; however, fiscal constraints may prevent this."

Councilwoman Gelman indicated that she would not favor municipalities being enabled to have richer programs than the balance of the County as an outgrowth of the revenue sharing formula.

Vice President Potter in the Chair.

Stating that the County has a responsibility to reimburse municipalities for services rendered, President Scull moved to make payments to municipalities binding, placing municipality revenue sharing in the same category as Metro and debt service. There was no second to President Scull's motion.

Councilman Potter commented that it should be made perfectly clear that the subject reimbursement is a matter of giving back to municipalities only the amount the County has saved in services displaced; if a jurisdiction chooses to provide a higher than County-level of service, the entire cost would not be reimbursable.

President Scull in the Chair.

Councilman Menke accepted Councilman Potter's substitute wording for his suggested amendment, as follows:

> This is regarded as a basic fiscal commitment of the County to provide greater tax equity for County taxpayers inside and outside the municipalities, but severe fiscal restraints might prevent 100% funding.

Councilmembers Gelman, Colman, Potter, Menke and Scull voting in the affirmative, Councilwoman Moore being temporarily absent, Councilman Hovsepian being absent, Resolution No. 8-2222 was adopted, as amended, providing for reimbursement to municipalities and special taxing areas within the County for those public services provided by these jurisdictions which would otherwise be provided by County government, as more particularly set forth in the subject resolution.

Re: Reconsideration/Approval of COG Request Concerning Metropolitan Clearing House Responsibilities to Include Local Plan Review System

President Scull explained that the scheduling of agenda time for reconsideration of proposed procedures by COG for local plan review and comment as part of A-95 applications was the result of her misunderstanding relating to the stressing of increased density for the lower part of the County without reference to neighborhood preservation.

Mr. George Chapman, Director of Planning, COG, explained that the proposed set of procedures was [illegible] of the Growth Policy Statement which emphasizes encouragement of compact development for the region, promotion of rehabilitation of existing neighborhoods and revitalization where there is local priority. He stated that the procedures are intended to offer opportunity through the A-95 system for local governments to ensure that regional and local plans are coordinated in an effective manner, with planning examined at an early stage at the

Resolution No. 9-1752

Introduced: April 13, 1982
Adopted: April 27, 1982

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By County Council

SUBJECT: Report of the Task Force on County-Municipality Financial Relationships and Revisions to the County's Municipal Revenue Program

WHEREAS, Chapter 30A of the Montgomery County Code, 1972, as amended, (1977 Replacement Volume), provides for a Municipal Revenue Program which reimburses the municipalities and special taxing districts for those public services which they provide and which would otherwise be provided by the County Government; and

WHEREAS, by Resolution 8-2222, dated October 17, 1978, the Montgomery County Council established a procedure for reimbursing each municipality and special taxing district for street-related expenditures, as follows: using its budgeted funding per mile for the operation and debt service of non-municipal County roads, the County reimburses each municipality and special taxing district for that road mileage certified by the State as being maintained by the municipality or special taxing district; and

WHEREAS, the formula was begun in fiscal 1979, and has received annual County appropriations for its implementation; and

WHEREAS, since this formula was adopted, there have been changes in the funding for the County's road program--(1) the new Transportation Revenue Sharing Account was enacted by the State; (2) the County's road debt service includes many METRO access roads and the landfill access road; and (3) investment income has increased; and

WHEREAS, beginning in fiscal year 1982 the State is providing a supplemental police grant in an amount equal to $2.00 per capita for each subdivision having a population density of less than 8,000 per square mile; and

WHEREAS, Article 15A of the State code further requires the governing body of each subdivision to allocate and distribute a portion of the supplemental police grant to qualifying municipalities on a formula basis to be negotiated between the County and the governing body of the qualifying municipalities; and

WHEREAS, there are several municipalities and special taxing districts within the County which provide code enforcement services and are not reimbursed by the County for the costs associated with these responsibilities even though they pay County property taxes for these services; and

WHEREAS, recognizing that the above cited changes required detailed examination, the Task Force on County-Municipality Financial Relationships was reestablished and charged with reviewing these matters and making recommendations concerning appropriate amendments to the Municipal Revenue Program (see County Council Resolution 9-1492 dated October 13,1981); and

WHEREAS, the Task Force submitted its Final Report and recommendations to the Council Council, a copy of which is attached hereto; and

WHEREAS, the Task Force has made recommendations to the Council with respect to the following:

. the allocation of revenues from the State's Transportation Revenue Sharing Account (TRSA);

. the exclusion of debt service charges for METRO access roads and the landfill access road from the reimbursement calculation for street related expenditures;

. the inclusion of investment income from road and storm drain revenues as a revenue offset to property tax duplication;

the inclusion of 10% of the County's expenditures for the traffic signal, traffic sign, and traffic marking programs;

beginning in fiscal year 1982, the sharing of the State's supplemental police aid should be based on a formula which gives equal weight to two factors--population and the number of sworn officers;

beginning in fiscal year 1983, the County should institute a reimbursement program for code expenditures--zoning, housing, animal control, and construction code enforcemnt. These reimbursements should use a formula based upon one of two indicators--the number of dwelling units or the number of parcels of land, whichever is the more appropriate in each case;

beginning in fiscal year 1983, the County should institute a reimbursement program for consumer affairs services in the City of Gaithersburg and for Human Relations Commission services in the City of Rockville;

the formula calculations for any given year should be based upon the County's and each municipality's actual audited expenditures and revenues for the prior fiscal year;

beginning in fiscal year 1983, the County should distribute 85% of the estimated reimbursements no later than October 15; the balance of the reimbursements based on audited expenditures and revenues, should be made no later than February 1 of each year;

all County payments for fiscal year 1981 and previous years should be considered as final and no adjustments should be attempted. The only exception to this recommendation is that the County should reimburse the City of Takoma Park a net amount of $52,650 for an error made in calculating that city's eligible mileage in fiscal years 1979, 1980, and 1981. This adjustment should be paid in fiscal year 1983;

for other areas of possible tax duplication which involve only one municipality or special taxing district and which are not explicitly addressed in this report, a representative of the County Executive should meet with the designee of any affected municipality or special taxing district to study these areas of possible duplication and submit recommendations for consideration by the County Council no later than June 1, 1982; and

WHEREAS, the Task Force estimates that the total cost to the County of the proposed reimbursement package will be $1,390,000 for fiscal year 1982, and will approximate $1.8 million thereafter;

NOW, THEREFORE, BE IT RESOLVED by the County Council for Montgomery County, Maryland that -

The report and recommendations of the Task Force on County-Municipality Financial Relationships is accepted and the recommendations, as outlined in the report, are accepted for funding within the Municipal Revenue Program;

AND BE IT FURTHER RESOLVED that -

The County Council regards this as a basic commitment of the County to provide greater equity for County taxpayers inside and outside the municipalities and special taxing districts, but severe fiscal constraints may prevent 100% funding. If the County is unable to fully fund the program in any fiscal year, appropriate notification should be provided to the appropriate municipalities and special taxing districts.

A True Copy

ATTEST:

Anna P. Spates

Anna P. Spates, Secretary
of the County Council for
Montgomery County, Maryland

ATTACHMENT

Attachment: Resolution No. 9-175
15 pages

SUMMARY

For the past several months, the Task Force on County-Municipality Financial Relationships has examined the County's Municipal Revenue Program which reimburses the municipalities and special taxing districts for those public services which they provide, and which would otherwise be provided by the County Government.

The general principles which the Task Force used are those outlined in Chapter 30A of the Montgomery County Code. These include:

- the service is provided by the municipality or special taxing district in lieu of being provided by the County;
- the reimbursement shall be limited to the amount the County would expend if it were providing the service within the municipality or special taxing district;
- the reimbursement is for property tax duplication, and is, therefore, limited to expenses financed with property tax revenues paid by all County taxpayers.

The work of the Task Force has focused on four areas of duplication:

1) street and road expenditures
2) code enforcement expenditures
3) sharing the State's supplemental police aid as required by Article 15A, Section 37 of the State Code.
4) other areas of possible duplication which are of concern to only one municipality or special taxing district.

The members of the Task Force are not in full agreement with every detail of the following recommendations, but there is a consensus that these recommendations represent a reasonable package which should be adopted by the County Council and the County Executive.

The Task Force recommends:

1) For fiscal year 1982 and subsequent years, the formula for reimbursement for street-related expenditures adopted in fiscal year 1979 should be modified to:

- allocate the revenues from the State Transportation Revenue Sharing Account equally between the mass transit and highway programs, and provide for a direct pass-thru of a portion of the highway allocation to the municipalities and special taxing districts.

- exclude the County's debt service charges for METRO access roads and the landfill access road from the reimbursement calculation, since these are determined to be a special category, of equal benefit to all County residents, including those in the municipalities and special taxing districts;

- incorporate investment income as a revenue offset to property tax duplication.

- include 10% of the County's expenditures for the traffic signal, traffic sign, and traffic marking programs since there is determined to be some level of tax-supported duplication.

2) Beginning in fiscal year 1982, the sharing of the State's supplemental police aid should be based on a formula which gives equal weight to two factors--population and the number of sworn officers.

3) Beginning in fiscal year 1983, the County should institute a reimbursement program for code expenditures--zoning, housing, animal control, and construction code enforcement. These reimbursements should use a formula based upon one of two indicators--the number of dwelling units or the number of parcels of land, whichever is the more appropriate in each case.

4). Begining in fiscal year 1983, the County should institute a reimbursement program for consumer affairs services in the City of Gaithersburg and for Human Relations Commission services in the City of Rockville.

5) The formula calculations for any given year should be based upon the County's and each municipality's actual audited expenditures and revenues for the prior fiscal year.

6) Beginning in fiscal year 1983, the County should distribute 85% of the estimated reimbursements no later than October 15; the balance of the reimbursements, based on audited expenditures and revenues, should be made no later than February 1 of each year. For fiscal year 1982, the reimbursements should be made by May 3, 1982.

7) All County payments for fiscal year 1981 and previous years should be considered as having been made and no adjustments should be attempted. The only exception to this recommendation is that the County should reimburse the City of Takoma Park a net amount of $52,650 for an error made in calculating that city's eligible mileage in fiscal years 1979, 1980, and 1981. This adjustment should be paid in fiscal year 1983.

8) For other areas of possible tax duplication which involve only one municipality or special taxing district and which are not explicitly addressed in this report, a representative of the County Executive should meet with the designee of any affected municipality or special taxing district to study these areas of possible duplication and submit recommendations for consideration by the County Council no later than June 1, 1982. A preliminary report is requested by May 3, 1982 in time for possible fiscal year 1983 funding.

The total cost to the County of the recommended reimbursement package will be $1,390,000 for fiscal year 1982; the cost in fiscal year 1983 will approximate $1.8 million.

REIMBURSEMENT FOR STREET AND ROAD EXPENDITURES

Background. County Council Resolution 8-2222, adopted October 17, 1978, established the present formula for reimbursing the municipalities and special taxing districts for street and road related expenditures. Essentially, this formula calculates the County's funding per mile from property taxes for the operation and debt service of non-municipal County roads. This County funding per mile is then reimbursed to each municipality and special taxing district based on the annual certified road mileage used by the State for calculating the sharing of gasoline and motor vehicle taxes.

The Task Force has discussed four issues at length:

- the handling of revenues received from the State through its Transportation Revenue Sharing Account;
- debt service charges for METRO access roads and the landfill access road;
- the handling of investment income as a revenue offset to property tax duplication;
- the expenditure program of the County's Transportation Department to ascertain those activities which benefit municipal residents.

Transportation Revenue Sharing Account. In its 1980 session, the Maryland Legislature established a Transportation Revenue Sharing Account (TRSA) in the

Transportation Trust Fund. Financing for this was provided from 20% of the vehicle titling tax revenues and 2% of the State's 7% corporate income tax. This new TRSA was one component of the Governor's transportation funding package which included the State's participation in mass transit operating subsidies. The County received $1.7 million from this new program in fiscal year 1981; future year estimates are about $2.5 million per year.

The Office of Management and Budget applied this "new" TRSA revenue as an offset to the County's transportation expenditures when calculating the reimbursements under the Municipal Revenue Program for fiscal year 1981. The municipalities and special taxing districts questioned this treatment of revenues, and it was this issue that headlined the agenda for the present Task Force.

The Task Force agrees that not all of the revenues received by the County from this source should be applied to the "revenue sharing formula" even though the County applies the entire amount to its General Fund.

<u>The Task Force recommends the following:</u>

- Revenues derived from the TRSA be allocated to both mass transit and highways in proportion to the amount of property tax revenues collected by the County for each purpose. For example, in fiscal year 1981, $26.7 million of property taxes were collected for transportation programs, of which 51.2% were for highways and 48.8% for transit; these percentage amounts would then be used to allocate the $1.7 million received from the TRSA.

- Of the amount designated for highways, the percentages used for the State's "pass through formula" for highways, would be used to distribute a portion of these revenues directly to the municipalities and special taxing districts. The balance of the highway's allocation is then applied as a revenue item in the "revenue sharing formula". Appendix A provides a detailed calculation for fiscal year 1981.

<u>Debt Service Costs</u>. In the course of reviewing the formula for street expenditure reimbursement, the County Executive's representative raised the issue of including 100% of the County's debt service in the reimbursement calculation. The argument presented was that the greatest portion of the County's road debt service is for arterial and METRO access roads which serve

County-wide needs and benefit municipal and special taxing district residents. The argument continued that it is fair to have municipal and special taxing district residents contribute to the property taxes that pay such debt service. It was further pointed out that debt service on roads is a significant share of the County's road program, but not so for the municipalities and special taxing districts; the vast majority of roads maintained by these governments are built by subdivision developers.

The Task Force recommends that the County's debt service costs for METRO access roads and for the landfill access road be excluded from the cost calculations for the Municipal Revenue Sharing Program. For fiscal years 1981 and 1982 this would amount to excluding 24% of the County's debt service costs. For the fiscal year 1984 reimbursements, this element of the formula should be recalculated. Appendix B provides the project listing.

Investment Income. A third issue relative to the street reimbursement formula was that the Office of Management and Budget was not including investment income as a revenue offset. These revenues are used to finance the road program and as such reduce the level of property tax duplication and should therefore be incorporated in the formula.

The Task Force recommends that investment income be included in the formula as a revenue offset.

Traffic Engineering Expenses. The formula adopted in 1979 does not provide reimbursement for the traffic signal, traffic sign, and traffic marking programs administered by the County's Division of Traffic Engineering. The municipal representatives on the Task Force questioned this exclusion since many, if not all, of them do incur costs for traffic signs and markings; the larger municipalities also maintain some of the traffic signals located within their jurisdictions.

The Task Force recommends that, since the incidence of these costs is not uniform for each municipality and special taxing district, 10% of the County's expenditures for these programs should be included in the reimbursement formula and the remaining 90% be considered to benefit municipal and special taxing district residents.

Fiscal Impact. The Task Force's recommendations for reimbursement for street related expenditures would total $5,496 per mile for a total impact for the County of approximately $1,300,000 for fiscal year 1982. Appendix C provides the detailed calculations.

SHARING THE STATE'S SUPPLEMENTAL POLICE AID

Background. Beginning this fiscal year, the State provides a supplemental police grant in an amount equal to $2.00 per capita for each county having a population density of less than 8,000 per square mile. Section 37 of Article 15A of the State Code requires the governing body of each subdivision to allocate and distribute a portion of this supplemental grant to qualifying municipalities on a formula basis to be negotiated between the County and the governing body of the qualifying municipalities. The revenue received in Montgomery County is estimated at $1,174,000 in fiscal year 1982.

The State also provides a basic police aid formula through which the municipalities and special taxing districts receive a grant directly from the State, based on each jurisdiction's proportion of actual police expenditures. This concept reimburses municipalities for their contribution to total police protection and attempts to account for different levels of service.

Chevy Chase Village, Gaithersburg, Rockville, and Takoma Park currently provide police services in the County. With the exception of Takoma Park, these municipalities provide supplemental patrol services, and do not have the full range of services provided by the County police; it is estimated that about 40% of the County police budget is for patrol services.

Alternative allocations. For distributing the supplemental aid to Chevy Chase Village, Gaithersburg, Rockville, and Takoma Park, the Task Force has discussed three alternative allocation formulae--population, number of sworn officers, and the State formula for basic police aid. The fiscal impact for the County for any of these formulae varies by about $23,000, and the allocation among the four municipalities is quite different. Appendix D provides details.

Beginning in fiscal year 1982 the Task Force recommends the following:

- provide the $2.00 per capita supplemental grant to the City of Takoma Park because the County does not provide police services within the city limits.

- for Chevy Chase Village, Gaithersburg, and Rockville use a formula weighted equally between population and the number of sworn officers. The reimbursement for population should be 80¢ of the $2.00 grant since these municipalities provide essentially patrol service and the patrol function represents about 40% of the County's police budget. Using the number of sworn officers is a measure of level of effort.

Fiscal Impact. The Task Force's recommendations for sharing the supplemental police aid will have an $82,000 fiscal impact for the County in fiscal year 1982. See Appendix D.

REIMBURSEMENT FOR CODE ENFORCEMENT EXPENDITURES

Background. Several of the municipalities and special taxing districts exercise authority in the areas of planning, zoning, code enforcement, and animal control. Since these activities are also carried out by agencies of the County Government and financed, at least in part, by general property tax revenues, it was deemed appropriate to include these programs on the Task Force's agenda. The recommendations of the Task Force are set forth below.

Planning and Zoning Expenditures. Four agencies of the County Government provide services related to the County's planning and zoning processes—the Office of the Hearing Examiner, the Board of Appeals, and the Code Enforcement Sections of the Departments of Environmental Protection and Housing & Community Development. Seven municipalities (Barnesville, Brookeville, Gaithersburg, Laytonsville, Poolesville, Rockville, and Washington Grove) also have planning and zoning powers and responsibilities, and do not avail themselves of the County's services.

Beginning in fiscal year 1983, the Task Force recommends reimbursement to those municipalities which exercise planning and zoning powers in accordance with the following:

- expenditures which are financed by the County's general property tax revenues for the County's Hearing Examiner, Board of Appeals, and Code Enforcement Sections of the Departments of Environmental Protection and Housing & Community Development should be included in the reimbursement formula.

- the County's tax-supported expenditure per parcel of land in the County should be the unit of measure applied to the number of parcels of land located in each of the affected municipalities.

- the reimbursement should not exceed the amount financed by taxes for these purposes by each of the municipal governments.

Housing-Related Items. The Task Force has determined that property maintenance and landlord-tenant services constitute duplicated services and should be reimbursed to the municipalities and special taxing districts providing these services. Expenditures for weed control, rodent control, and landlord-tenant services financed by the County's general property tax are included here.

Beginning in fiscal year 1983, the Task Force recommends reimbursement to those municipalities which provide these housing-related services in accordance with the following:

- expenditures which are financed by the County's general property tax revenues for weed control, rodent control, and landlord-tenant services should be included in the reimbursement formula.
- the County's tax-supported expenditure per dwelling unit should be the unit of measure applied to the number of dwelling units located in each of the affected municipalities or special taxing districts.
- the reimbursement should not exceed the amount financed by taxes for these purposes by each of the municipalities or special taxing districts.

Animal Control. The County's Department of Animal Control and Humane Treatment does not provide all of its services for the cities of Rockville and Gaithersburg; they do, however, use the County Animal Shelter and also use the County's rabies control services.

Beginning in fiscal year 1983, the Task Force recommends reimbursement to those municipalities which provide these animal control services in accordance with the following:

- expenditures which are financed by the County's general property tax revenues for animal control, excluding the cost for the County's Animal Shelter and the rabies control services, should be included in the reimbursement formula.
- the County's tax-supported expenditure per dwelling unit should be the unit of measure applied to the number of dwelling units located in each of the affected municipalities or special taxing districts.

- the reimbursement should not exceed the amount financed by taxes for this purpose by each of the municipalities or special taxing districts.

Fiscal Impact. The estimated fiscal impact for the reimbursement for these code enforcement expenditures totals $261,150 for fiscal year 1983---$156,100 for planning and zoning; $39,400 for housing-related items; $65,650 for animal control expenditures. Appendix E provides a detailed calculation.

REIMBURSEMENT FOR OTHER TAX DUPLICATION SERVICES

During the Task Force's deliberations concerning tax duplication, the representatives of the municipalities and special tax districts identified a number of services which they feel are provided by the County and one municipality, but not by all municipalities and special taxing districts. Examples include: consumer affairs services in Gaithersburg; human relations services in Rockville; transporation for the elderly to nutrition sites in Rockville; METRO access roads in Rockville; police protection, parks maintenance and development, and library services in Takoma Park. The Task Force has taken note of the statement of the County Executive in his proposed fiscal year 1983 operating budget that "...police service in Takoma Park is a component of the current analysis of the County's Municipal Sharing Program and adjustments to the current formula may be recommended in FY 83."

The Task Force has had only limited discussions on these matters and recommends the following:

- beginning in fiscal year 1983, reimburse the City of Gaithersburg for its consumer affairs services limited to the amount the County would expend if it were providing the service. The reimbursement should not exceed the City's actual expenditures for this service.

- beginning in fiscal year 1983, reimburse the City of Rockville for its Human Rights Commission expenditures limited to the amount the County would expend if it were providing the service. The reimbursement should not exceed the City's actual expenditure for this purpose.

- a representative of the County Executive should meet with representatives of the City of Takoma Park and any other municipality or special taxing district to study any potential tax duplication issue not explicitly addressed in this report. The

County Executive is requested to prepare recommendations on each issue for consideration by the County Council. Of particular urgency is the review of funding for police protection, parks maintenance and development, and library services provided in the Montgomery County portion of Takoma Park.

- a recommendation on all issues should be available for Council consideration prior to June 1, 1982. A preliminary report is requested by May 3, 1982 in time for possible fiscal year 1983 funding.

APPENDIX A

	FY 1981 Actual	
General Fund Property Taxes to Support Highway Operations	$7,909,843	
Debt Service for Roads & Storm Drains	6,346,054	
Special Assessments	(-588,734)	
Total General Fund Taxes for Highway Program	13,667,163	(51.2%)
Mass Transit Property Taxes	13,023,658	(48.8%)
TOTAL TRANSPORTATION PROGRAM PROPERTY TAXES	$26,690,820	(100.0%)

The County collected $1,704,756 in FY 1981 from the State's Transportation Revenue Sharing Account (TRSA)

48.8% or $831,926 is allocated to transit
51.2% or $872,830 is allocated to highways
$1,704,756

Of the $872,830 allocated to highways, $109,100 is passed-thru directly to the municipalities in accordance with the State's formula for highways. The balance of $763,730 is applied to the "revenue sharing formula" as shown in Appendix C.

APPENDIX B

Landfill and METRO Access Roads: FY 1973 thru FY 1982

	County Bond Expenditures	
	Actual thru FY 81	FY 82 Estimated
Fieldcrest Road (Landfill Access)	$2,266,000	$100,000
Silver Spring METRO Access	2,880,000	-0-
Redland Fields Road	2,291,000	445,000
Eastern Arterial	641,000	190,000
Executive Boulevard Extension	1,403,000	298,000
Marinelli Road	1,333,000	263,000
Twinbrook Parkway Widening	198,000	182,000
Woodmont Avenue	421,000	20,000
Woodmont Avenue Extended	51,000	-0-
Woodmont Avenue-Edgemoor Lane	1,074,000	340,000
Crabbs Branch Way	142,000	431,000
Montgomery Lane	1,127,000	154,000
	$13,827,000	$2,423,000 ($16,250,0(

* *

Bond Sales: FY 1973 thru FY 1982

	Millions $$
March 1981	$18.0
June 1980	7.0
May 1979	3.0
June 1978	7.0
April 1977	5.0
July 1976	3.5
January 1975	12.0
April 1973	7.5
June 1972	5.0
	$68.0

* *

$\frac{\text{penditures for Access Roads}}{\text{..oad \& Strom Drain Bond Sales}} = \frac{\$16.3}{\$68.0} = 24\%$

APPENDIX C

		Actual FY 1981
I	Salaries & Wages	$8,767,489
	Operating Expenses	5,790,935
	Capital Outlay	52,790
	Fringe Benefits	2,562,315
	Utility Costs NDA	2,878,693
II	Less Charges to:	
	Suburban District	210,120
	Capital Projects	1,733,160
	Mass Transit	18,720
	Parking Districts	-0-
	Subtotal	$18,090,222
III	Less Revenue Sources	
	-Vehicle & Fuel Taxes	$7,223,709
	-Race Track Receipts	282,406
	-Signal Maint. Reimb.	237,792
	-Engineer Fees	431,341
	-Planning Grant	99,000
	-Other	23,333
	-Storm Drain Tax	654,306
*	-Investment Income	1,228,492
	Subtotal	$7,909,843
* IV	Debt Service @ 76%	$4,823,001
	Less Special Assessments	447,438
	Subtotal	$12,285,406
* V	Less Transportation Revenue Sharing @ 45%	$763,730
	Subtotal	$11,521,676
VI	Less Activities Considered to Benefit Municipalities	
	-Office of Director	$251,176
	-50% Administration Svcs.	61,270
	-50% Transp. Engineering	700,433
	-Transp. Planning	178,686
*	-90% Traffic Engineering	$1,802,727
VII	Net General Fund Tax Support	$8,527,384
	# Miles	1,693
	Support per mile	$ 5,037

237.88 miles x $5,037 = $1,198,200

TRSA Direct ($459/mile) = $ 109,100

TOTAL ($5,496/mile)= $1,307,300

* Items discussed by the Task Force

APPENDIX D

Distribution Formula
Supplemental Police Aid
Based on estimated Montgomery County supplemental
grant of $1,174,000

Per Capita

The affected municipalities agreed that Takoma Park should receive $2.00 per capita for supplemental police aid because Montgomery County does not provide police services within the City limits.

Municipality	Montgomery County Population	Funding
Takoma Park	11,331	$22,662

Chevy Chase Village, Gaithersburg and Rockville agreed that population should be the basis for half of the distribution formula. Because these jurisdictions provide primarily patrol services, it was agreed that $0.80 per capita was a fair distribution, representing 40% of the $2.00 per capita received by Montgomery County.

Municipality	Population	$0.80 per capita	50% formula (x.5)
Chevy Chase Village	2,107	$ 1,686	$ 843
Gaithersburg	26,400	21,120	10,560
Rockville	43,811	35,048	17,524

Per Sworn Officer

The affected municipalities also agreed that the number of sworn officers represented a level of effort of providing police services and should be the other half of the distribution formula.

Municipality	# Sworn Officers	% of Total*	50% of formula (x.5)
Chevy Chase Village	8	.00937	$ 5,500
Gaithersburg	7	.00820	4,814
Rockville	28	.03280	19,254

*Montgomery County has 789 sworn officer positions and Takoma Park has the equivalent of 21.6 officers serving the Montgomery County portion of the City, for a total of 853.6 sworn officers for the County and its municipalities.

Total Allocation

The following table shows the net result of this proposed formula:

Municipality	Per Capita	Per Sworn Officer	Total
Chevy Chase Village	$ 843	$ 5,500	$ 6,343
Gaithersburg	10,560	4,814	15,374
Rockville	17,524	19,254	36,778
Takoma Park	22,662	--	22,662
			$81,157

CODE ENFORCEMENT EXPENDITURES

FY 1982

	Planning & Zoning							
	Hearing Examiner	Bd. of Appeals	DEP Code	Animal Control	Landlord Tenant	Rodent Control	Weed Control	DHCD Code
Budget Estimate	$217,430	$122,690	$2,477,920	$911,610	$60,000	$75,410	$115,870	$316,820
Less Adjustments	0	0	40,850[2]	-370,480[1]	0	0	0	0
Net	$217,430	$122,690	$2,437,070	$541,130	$60,000	$75,410	$115,870	$316,820
% Funded by Property Tax	0%	29.5%	34.8%	70%	100%	68.2%	100%	100%
Tax Duplication	0	$36,140	$847,070	$378,790	$60,000	$51,425	$115,870	$316,820
# County								
. Parcels	206,158	206,158	206,158	-	-	-	-	206,158
. Dwelling Units	-	-	-	207,195	207,195	207,195	207,195	-
Duplication per Unit	0	$.1753	$4.1088	$1.8282	.2896	.2482	.5592	$1.5291
# Units in Municipalities Providng the Service	26,855	26,855	26,855	35,905	35,905	35,905	35,905	26,855
Reimbursement	0	$4,700	$110,340	$65,650	$10,400	$8,920	$20,080	$41,060

1 Animal Shelter & Rabies Control

2 Elevator Inspection Program

Resolution No.: 13-650
Introduced: Sept. 10, 1996
Adopted: Sept. 10, 1996

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: County Reimbursements under the Montgomery County Municipal Revenue Program - Task Force Report and Recommendations

Background

1. Chapter 30A of the Montgomery County Code (1994) provides for a program which reimburses municipalities and special taxing districts for those public services provided by the municipalities which would otherwise be provided by the County.

2. Reimbursements under Chapter 30A have been made pursuant to a procedure established under Resolution 8-2222, dated October 17, 1978, which was revised and supplemented by Resolution 9-1752, dated April 27, 1982.

3. In March 1995 County Executive Douglas M. Duncan appointed County and municipal representatives to serve on the Montgomery County Task Force to Study the Municipal Tax Duplication Reimbursement Program. This Task Force was charged with reviewing the procedures and formulas used to determine the amount of the reimbursements and with making recommendations to improve these procedures and formulas.

4. The Task Force submitted its Final Report and recommendations, a copy of which is attached, to County Executive Douglas M. Duncan, on June 5, 1996.

5. The goals of the Task Force were to determine:

   a. Whether the complex formulas used to calculate the reimbursements could be simplified;

   b. Whether reimbursements could be made in a way that would provide greater predictability to each municipality in planning the following year's budget;

c. Whether a single reimbursement could be made.

6. The Task Force recommends that the following formulas be used to determine the reimbursements for the following services provided by the municipalities:

   a. Transportation. Reimbursements shall be a percentage of the County's actual, audited per mile or per item expenditure, multiplied by the number of miles or items in each municipality. The percentage reflects the percentage of the County expenditures that are paid for with property tax revenues.

   b. Park Maintenance. Reimbursements will be based upon the same formula currently used.

   c. Code Enforcement. Reimbursements will be based upon the net County property tax supported code enforcement expenditures per dwelling or per parcel.

   d. Other services. Reimbursements will be based upon the net County property tax supported expenditures.

Action

The County Council for Montgomery County, Maryland, approves the following resolution:

1. The Final Report of the Task Force to Study the Municipal Tax Duplication Reimbursement Program is accepted and the recommendations, as outlined in the report, are accepted for funding within the Municipal Revenue Program

2. The recommendations contained in the Report will be implemented beginning in Fiscal Year 1997.

3. Reimbursement payments to municipalities will be made once a year, by October 1.

4. Reimbursements for Fiscal Year 1997 will be based upon Fiscal Year 1995 actual, audited expenditures from the County's comprehensive annual financial report. Thereafter annual reimbursements will continue to be based upon the actual audited expenditures using a similar two year interval.

5. Municipalities will not be required to submit their expenditures but will be required to provide annual certification of eligible services

6. The Task Force will meet annually to review the municipal revenue program.

7. To the extent that the County Council is required to meet annually and discuss with each municipality the rate for assessments or the tax reimbursement program, the Council delegates this duty to the County Executive or his delegate, who should then report back to the County Council.

This is a correct copy of Council action.

/S/

Mary A. Edgar, CMC
Secretary of the Council

APPROVED:

/S/

Douglas M. Duncan
County Executive

Bud, Fin & Econ Dev.

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Douglas M. Duncan
County Executive

SBF
CC
LL
ME

009640

MEMORANDUM

July 1, 1996

In File

TO: Gail H. Ewing, President, Montgomery County Council

FROM: Douglas M. Duncan, County Executive

SUBJECT: Municipal Tax Duplication Reimbursement Task Force
Final Report and Resolution

I am pleased to share with you and the members of the County Council the enclosed Final Report of the Municipal Tax Duplication Reimbursement Task Force. I appointed this Task Force last year for the purpose of reviewing, and recommending changes to the process used by the County to calculate and reimburse expenditures to municipalities for those property tax based services provided by municipalities that would otherwise have to be provided by the County. The current process was established by Resolution in 1978.

I commend the members of this Task Force for their many months of dedicated work and their ability to develop recommendations that, when adopted, will well serve all of our residents. The proposed formula should also contribute to improved efficiency in budgeting and planning functions for the County as well as for our municipalities. I recommend that the County Council approve the Resolution included as part of this report.

DMD/rm

Enclosure

Tax Duplication Task Force Final Report

June 5, 1996

EXECUTIVE SUMMARY OF RECOMMENDATIONS

The Montgomery County Tax Duplication Task Force recommends the following:

- In FY96 the Montgomery County municipalities will receive tax duplication reimbursements calculated according to the tax duplication formulas currently in place. FY95 base data is used to make these calculations.

- In FY97 the tax duplication reimbursements will be based on the formulas recommended by the Task Force. These formulas are based on FY95 actual expenditures.

- The recommended formulas are based on the County's actual, net, property tax supported expenditures for service (i.e. total expenditures less applicable off-setting non-tax revenues), not on the amount spent by the municipalities.

  TRANSPORTATION
  - 61.7% of the County's FY95 actual, audited per mile or per item expenditure multiplied by the number of road miles or items in each municipality.
  - In FY97 each municipality will receive a reimbursement payment for transportation that is no less than the amount received in FY96.
  - The Task Force will meet prior to next year's meet and confer to review the impact of changes in State Highway User Revenue program and any other changes in non-tax .

  POLICE
  - Since the County does not currently use the presence of Gaithersburg, Rockville and Village of Chevy Chase police forces in determining their resource and beat allocation formulas no duplication reimbursement is recommended.

  PARK MAINTENANCE
  - In FY97 the park maintenance reimbursement will be based on the current formula.
  - The Task Force will review problems with the current system and recommend a new formula for FY98 if necessary.

  CODE ENFORCEMENT
  - The reimbursement will be based on the County's net per dwelling or per parcel cost rather than on the municipality's net cost.

- The Task Force recommends that the municipalities will not be required to submit details of their expenditures but will be required to provide annual certification of eligible services and workload data for selected services.

- Any negotiations related to other Takoma Park consolidation will be separate from the tax duplication issues.

Background

In March, 1995 County Executive Douglas M. Duncan appointed County and municipal representatives to serve on the Montgomery County Task Force to study the Municipal Tax Duplication Reimbursement Program. The municipal representatives recommended by the Maryland Municipal League Montgomery County Executive Board are: Beverly Habada, Administrator, City of Takoma Park, David Humpton, Manager, City of Gaithersburg, Rick Kuckkahn, Manager, City of Rockville, Susan Robinson, Manager, Town of Chevy Chase, Lib Tolbert, Mayor, Barnesville. The County representatives are: Mike Coveyou, Department of Finance, Betty Ferber, Office of the County Attorney, George Griffin, Office of the County Executive, Susan Hoffmann, Intergovernmental Relations Office, Bryan Hunt, Office of Management & Budget, and Chuck Sherer, County Council Staff. Barbara Hawk, Director, Institute for Governmental Service has served as facilitator of the group. Andi Silverstone, Town of Chevy Chase, served as secretary to the Task Force. Paulette Bowles, Office of Management & Budget, has provided technical assistance and staff support. The group began meeting in April, 1995 and met through May, 1996.

Task Force Goals

The Task Force was directed to look into issues surrounding the current tax duplication formula and to recommend improvements to the program. Early in the process the group decided that its primary goal was to improve and simplify the current system, rather than to create a new system. A second goal was to resolve policy and administrative problems associated with the current program. An important objective of the Task Force was to assure that neither the County nor the municipalities receive a "windfall" from new formulas, and conversely, that no jurisdiction suffer a large revenue loss. The Task Force was directed to report their recommendations to the County Executive for his review and action.

Several problems associated with the current system were identified, and the Task Force focused on resolving those issues. The Task Force determined that there were both administrative problems and policy issues to be resolved. The group agreed that the police and transportation (road maintenance) formulas were the most significant areas of concern. These issues were also the most complex and difficult for the Task Force to resolve. Determination of the level of service provided by the County and estimating what the portion of those expenditures are supported by property tax revenues is complicated and time-consuming. However, the group reached consensus on the following issues:

Policy Issues

1. The reimbursement program should be equitable, efficient to administer, and easily understood by the public.

2. The basis for the reimbursement program should be the amount the County would spend to provide a duplicated service rather than the amount spent by a municipality to provide the service. Therefore, the rebate to the municipalities should be based on the County's actual, net, property tax funded expenditures for a given service. The reimbursement formula should not include services provided by a municipality but not provided by the County.

3. The reimbursement program should be as predictable and stable as possible and should require as little paperwork as possible by both the County and the municipalities.

4. In order to minimize the potential budgetary impact of the new formulas on either the County or the municipalities, any changes should be phased in if possible.

5. There should be provisions for annual re-evaluation of the reimbursement program.

Administrative/Procedural Issues

1. The formula for reimbursements should be based on the actual, net, County property tax supported expenditures for service. (i.e. total expenditures less applicable off-setting non-tax revenues).

2. The reimbursement for transportation should be based on a cost per mile or per unit figure, less off-setting revenues such as fees and charges and Highway User Revenues.

3. The police services reimbursement should more accurately reflect the number of first responses by County and municipal police officers or use some other measure that accounts for the net County per capita police expenditures.

4. Reimbursement payments to municipalities should be made once a year, by October 1, instead of twice a year as is current practice. To accomplish this, the Task Force recommends using audited expenditure figures from the County's comprehensive annual financial report (CAFR). For instance, FY97

payments would be based on the audited FY95 actual figures which are available in late December, 1995. This assures that both the County and the municipalities have firm numbers before their respective budget cycles begin.

5. The recommendations, if adopted, should be implemented in FY97. Therefore, reimbursements will be based on FY95 actual, audited expenditures. (It should be noted that this requires using FY95 actuals for two years' reimbursements; FY96 reimbursements using the old formula, and FY97 reimbursements using the new formula.)

6. An annual review of the program will be conducted by the municipalities and the County. The Task Force will remain as constituted and may meet throughout the year to discuss issues that affect the reimbursement formula. The group will also meet prior to the annual meet and confer sessions with the County Executive and the County Council.

RECOMMENDED REIMBURSEMENT FORMULAS

Table 1 summarizes the reimbursements for each municipality for duplicated services proposed for FY97 using the new formula. Table 2 compares current and recommended reimbursements. All recommended totals use FY95 actual figures.

Transportation

A primary goal of the Task Force was to develop a simpler, equitable reimbursement formula for transportation expenditures. The proposed formula has two components. The first is the cost of road maintenance provided by the County Department of Public Works and Transportation (Divisions of Highway Services and Traffic and Parking Services). Roadway maintenance, bridge maintenance, storm damage, roadway resurfacing (CIP projects), traffic signs & pavement markings, and street light maintenance costs were calculated on a per road mile basis. The maintenance costs of bridges and traffic signals were calculated on a per item basis. (Table 3) The second component is the percentage of the County expenditures that could be, and therefore theoretically are, paid for with property tax revenues. State Highway User Revenues (HUR) and miscellaneous fees and charges are also used to fund County road maintenance costs. The Task Force determined that in FY95 Highway User Revenues and miscellaneous sources accounted for approximately 38.3% of the total eligible expenditures (Table 4). Therefore, the net County property tax funded cost is 61.7% of total expenditures in FY95. This percentage will change annually depending on the amount of Highway User Revenues received , the amount of other miscellaneous fees and charges and the size of the County road maintenance budget.

Based on this rationale, the Task Force recommends that the transportation property tax reimbursement for FY97 be set at 61.7% of the actual, audited County per mile or per item FY95 road maintenance expenditures, multiplied by the number of road miles or items in each municipality. All municipalities will be guaranteed the dollar amount of the FY96 payment in FY97. Table 5 compares the current transportation formula with the recommended formula by maintenance category. Table 6 summarizes the anticipated impact of the recommended formula on each municipality.

The Task Force agreed to meet in one year to adjust the transportation formula. The Task Force further recommends that a group of transportation professionals meet to discuss and make recommendations regarding the difference in maintenance costs of urban (or highly traveled) roads, rural and residential roads. They will also look at whether there are any special road costs experienced by Rockville as the center of County government.

If the recommendations cannot be implemented beginning in FY97 the Task Force recommends that they be implemented in FY98 and based on actual, audited FY96 data. FY96 data (using either the current or the proposed formulas) will result in significantly higher payments due to the snow storm costs. The Task Force agreed that if the recommendation is not implemented until FY98, FY96 data will be used for that year also, except that a four year average will be used for the storm damage factor in the formula. (See Table 7 for a summary of historic maintenance cost data)

POLICE

Calculation of a police services reimbursement formula is complicated by the fact that the County is required, by law, to provide the same level of service to municipal residents and non-municipal residents except in the case of Takoma Park. Under a 1949 agreement the City of Takoma Park has responsibility for all calls for police assistance and dispatches its own officers. The City has a mutual aid agreement with the County. The police reimbursement issue is further complicated by the fact that each of the other jurisdictions which offer police services (Rockville, Gaithersburg and the Village of Chevy Chase) has a different arrangement with the County for responding to calls.

The City of Rockville has its own central dispatch operation which handles telephone and walk-in complaints. They also monitor the County system and dispatch their officers to complaints/incidents in Rockville. The County can dispatch Rockville officers as a first response but generally does not. All addresses in Chevy Chase Village are coded in the County's dispatch system. When a call for service from a Village address is received a code appears on the dispatcher's screen and a Village police officer is then dispatched to the call. County police officers are not dispatched to emergency calls in the Village unless there are no Village units available. Non-emergency calls are held until a Village unit is available. The City of Gaithersburg has concurrent jurisdiction with Montgomery County police and officers are dispatched directly by the County.

Originally, the Task Force recommended a formula based in part on the current formula used to calculate the Takoma Park reimbursement which assumes a ratio of seven police officers for every 6,000 calls. The ratio of total service calls to municipality first responses is factored in and the police State aid paid to municipalities is subtracted. However, members of the Task Force met with County police officials to discuss the County's internal review of police services, beat realignments, restructuring of district boundaries and reallocation of resources. The Task Force found that the County does not use the number of first response calls made by municipal officers as a factor in their beat allocation decisions. The Montgomery County police are required to provide the same level of service to all residents whether or not they reside in a municipality. The County asserts that if the municipalities did not provide police services, the result would be an increase in response time countywide. Their logic is that while the presence of the municipal police allows the County police to respond faster or to more complaints, the absence of municipal police would not significantly change the beat allocation now in effect.

The Task Force agreed that the basis for the reimbursement program should be the amount the County would spend to provide a duplicated service rather than the amount spent by a municipality to provide a service. None of the municipalities provide all or primary police services within their boundaries. The County reasons that if the municipalities no longer provided police services to their residents, the County would expend the same dollar amount now expended countywide and provide a somewhat lower level of service countywide. That is, the County police would not necessarily provide the same level of service that either municipal or other County residents receive today. Using this reasoning the municipal police services is a supplemental rather than a duplicated service. Therefore, we recommend no duplication reimbursement be made at this time. However, it is clear that there is a threshold point, below which the level of service would not be acceptable to residents. It can be assumed that at that point the County police might need to provide additional resources (officers, vehicles, etc.) or change their beat allocation to include first responses by municipal police. The Task Force will continue to monitor this issue and will propose changes if necessary.

CODE ENFORCEMENT

The recommended code enforcement reimbursement formula is based on the net County property tax supported code enforcement expenditures per dwelling or per parcel. Table 5 includes the anticipated reimbursement to each jurisdiction. Due to a recently adopted change in County policy placing most code enforcement activities in an enterprise system, no reimbursement is anticipated after the FY98.

Park Maintenance

The park maintenance formula was originally based on a cost accounting system (labor retrieval system) used by the Maryland-National Capitol Park and Planning Commission (M-NCPPC). In FY88 the M-NCPPC stopped using the system. The County has subsequently used the 1988 figure plus an inflator (CPI-U for the Washington area) each year to calculate the cost of maintaining various types of urban parks. Additional data will be required to develop a more accurate cost reimbursement formula. There are also questions related to which parks operated by municipalities are eligible for reimbursement. Several problems with the current system have been identified.

1. The inflated figures may not be a true reflection of the cost of maintaining the parks today.

2. The formula accounts only for expenditures and not for offsetting revenues.

3. The criteria for determining which municipal park maintenance expenditures are reimbursable appears to be unclear and somewhat inconsistent.

The Task Force recommends that until another formula can be developed the Park Maintenance reimbursement formula should remain as it is. During the next several months the Task Force will look into this issue and recommend a new formula for park maintenance reimbursement.

Other

All other services will continue to be based on the net County property tax supported expenditures. Municipalities will not be required to submit their expenditures, but will be required to provide annual certification of eligible service and workload data necessary for reimbursement for selected services such as elderly shopping service, senior transportation and crossing guards.

The Task Force also recommends that any negotiations related to the Takoma Park consolidation be kept separate from other Tax Duplication Task Force issues.

Table 1
Summary of Proposal

Municipality	Miles	Proposed Road Maint Reimb.	Proposed Code Enforce-ment	Proposed Police	Prop/Cur Metro Access Roads	Prop/Cur Other Items*	TOTAL
Barnesville	0.00	0					0
Brookeville	0.46	3,699					3,699
Chevy Chase, Sec. III	2.23	17,931					17,931
Chevy Chase, Sec. V	1.60	12,866					12,866
Chevy Chase View	3.40	27,339					27,339
Chevy Chase Village	8.27	66,499	8,262				74,761
Town of Chevy Chase	9.92	79,766	11,891			7,291	98,948
Drummond	0.38	3,056					3,056
Friendship Heights	0.83	6,674				59,181	65,855
Gaithersburg	70.12	571,483	154,371				725,854
Garrett Park	3.92	31,521					31,521
Glen Echo	1.71	13,750					13,750
Kensington	8.17	65,695	15,527			28,440	109,662
Laytonsville	1.07	8,604					8,604
Martin's Addition	2.21	17,771					17,771
North Chevy Chase	1.97	15,841					15,841
Oakmont	0.27	2,171					2,171
Poolesville	15.28	122,866				29,270	152,136
Rockville	133.88	1,126,604	170,339		155,230	110,253	1,562,426
Somerset	4.24	34,094					34,094
Takoma Park	18.24	154,754	14,259	23,178	-	781,181	973,372
Washington Grove	2.92	23,480					23,480
TOTAL	**291.09**	**2,406,462**	**374,649**	**23,178**	**155,230**	**1,015,616**	**3,975,135**

* Source of Data
State Highway Administration of Maryland
FY 94 Recapitulation of Urban and Rural Mileage
* Other Items as calculated include: Police Crossing Guards, Senior Transportation, Elderly Shopping, Park Maintenance, and a Human Relations Commission.
Police Pass Thru not shown on this table.

Table 2
Comparison of Current Formula to Proposal
By Municipality

Municipality	Miles	Proposed Road Maint Reimb.	Current Road Maint Reimb. FY 96	Change Road Maint Reimb.	Proposed Code Enforcement	Current Code Enforcement	Prop Police Pass Thru not shown	Current Police Pass Thru Shown	Prop/Cur Metro Access Roads	Current Other Items	Prop Other Items*	Total New Proposal	Current Total	Change Proposed
Barnesville	0.00	0	0	0								0	0	0
Brookeville	0.46	3,699	3,384	315								3,699	3,384	315
Chevy Chase, Sec. III	2.23	17,931	16,407	1,524								17,931	16,407	1,524
Chevy Chase, Sec. V	1.60	12,866	11,772	1,094								12,866	11,772	1,094
Chevy Chase View	3.40	27,339	25,015	2,324								27,339	25,015	2,324
Chevy Chase Village	8.27	66,499	60,845	5,654	8,262	8,547	0	7,324				74,761	76,716	-1,955
Town of Chevy Chase	9.92	79,766	72,984	6,782	11,891	12,277				7,453	7,291	98,948	92,714	6,234
Drummond	0.38	3,056	2,796	260								3,056	2,796	260
Friendship Heights	0.83	6,674	6,107	567						60,052	59,181	65,855	66,159	-304
Gaithersburg	70.12	571,483	515,892	55,591	154,371	50,508	0	41,310				725,854	607,710	118,144
Garrett Park	3.92	31,521	28,841	2,680								31,521	28,841	2,680
Glen Echo	1.71	13,750	12,581	1,169								13,750	12,581	1,169
Kensington	8.17	65,695	60,109	5,586	15,527	16,043				29,080	28,440	109,662	105,232	4,430
Laytonsville	1.07	8,604	7,872	732								8,604	7,872	732
Martin's Addition	2.21	17,771	16,260	1,511								17,771	16,260	1,511
North Chevy Chase	1.97	15,841	14,494	1,347								15,841	14,494	1,347
Oakmont	0.27	2,171	1,986	185								2,171	1,986	185
Poolesville	15.28	122,866	112,419	10,447						29,930	29,270	152,136	142,349	9,787
Rockville	133.88	1,126,604	984,992	141,612	170,339	64,176	0	59,189	155,230	120,628	110,253	1,562,426	1,384,215	178,211
Somerset	4.24	34,094	31,195	2,899								34,094	31,195	2,899
Takoma Park	18.24	154,754	134,197	20,557	14,259	14,720	23,178	23710		777,430	781,181	973,372	950,057	23,315
Washington Grove	2.92	23,480	21,482	1,998								23,480	21,482	1,998
TOTAL	291.09	2,406,462	2,141,630	264,832	374,649	166,271	23,178	131,533	155,230	1,024,573	1,015,616	3,975,135	3,619,237	355,898
														10% Increase OVERALL

* Source of Data
State Highway Administration of Maryland
FY 94 Recapitulation of Urban and Rural Mileage
* Other Items as calculated include: Police Crossing Guards, Senior Transportation, Elderly Shopping, Park Maintenance, and a Human Relations Commission.

Table 3
Municipal Tax Duplication
Road Maintenance Calculation
FY 95 County Maintenance Cost Factors

Roadway and Related Maintenance	$ 6,494	per mile
Storm Damage	$ 1,083	per mile
Roadway Resurfacing (CIP Projects)	$ 2,242	per mile
Main Roads (Asphalt)		
Residential Roads (Slurry)		
Curb and Gutter, Sidewalk		
Traffic Signs and Pavement Markings	$ 822	per mile
Traffic Light Maintenance	$ 103	per mile
Street Light Maintenance	$ 2,280	per mile
TOTAL	$ 13,024	per mile
PLUS		
Traffic Signal Maintenance	$ 2,000	per signal
Bridge Maintenance	$ 3,098	per bridge
Pedestrian Bridge	$ 713	per pedestrian bridge

Table 4
Municipal Tax Duplication
Transportation HUR and Revenue Offset
Calculation and Formula

MC DPWT Tax Supported Operating Expenditures (1)	$ 24,021,040
Debt Service (2)	$ 37,380,590
MC DPTW Eligible Expenditures	$ 61,401,630
Subtract: Other Rev Sources (grants, fees, and charges)(3)	$ (6,286,361)
Equals: Total HUR Eligible DPTW Expenditures	$ 55,115,269
State Highway User Revenue (HUR) Received (4)	$ 21,086,402
Ratio of HUR to total expenditures (HUR Ratio)	38.26

1 Page 42-5 FY 97 Operating Budget
2 Page 13 FY 97 Recommended Operating Budget
3 Charges to Suburban District, DOT CIP projects, minus current revenue funding, and charges to mass transit, and parking/urban district
Calculated by Bryan Hunt, OMB 4-96
4 Page 42-5 FY 97 Operating Budget

TABLE 5

Proposed Transportation Payment for FY97 using FY95 Actual Data
Compared to the FY96 Payment (Most Recent Payment which used FY95 data)

Municipality	# of miles*	Miles Reimbursement $13,024	# of traffic signals	Traffic signal Reimbursement $2,000	# of bridges	Bridge Reimbursement $3,098	# of Ped. Bridges	Ped. Bridge Reimbursement $713	TOTAL	Multiplied by HUR Total 38.26% Reimbursemen Total	Current Year Reimbursement For Road Maint. FY96	Increase $
Barnesville	0.00	0		0		0		0	0	**0**	0	0
Brookeville	0.46	5,991		0		0		0	5,991	**3,699**	3,384	315
Chevy Chase, Sec. III	2.23	29,043		0		0		0	29,043	**17,931**	16,407	1,524
Chevy Chase, Sec. V	1.60	20,838		0		0		0	20,838	**12,866**	11,772	1,094
Chevy Chase View	3.40	44,280		0		0		0	44,280	**27,339**	25,015	2,324
Chevy Chase Village	8.27	107,706		0		0		0	107,706	**66,499**	60,845	5,654
Town of Chevy Chase	9.92	129,195		0		0		0	129,195	**79,766**	72,984	6,782
Drummond	0.38	4,949		0		0		0	4,949	**3,056**	2,796	260
Friendship Heights	0.83	10,810		0		0		0	10,810	**6,674**	6,107	567
Gaithersburg	70.12	913,218		0	4	12,392		0	925,610	**571,483**	515,892	55,591
Garrett Park	3.92	51,053		0		0		0	51,053	**31,521**	28,841	2,680
Glen Echo	1.71	22,270		0		0		0	22,270	**13,750**	12,581	1,169
Kensington	8.17	106,403		0		0		0	106,403	**65,695**	60,109	5,586
Laytonsville	1.07	13,935		0		0		0	13,935	**8,604**	7,872	732
Martin's Addition	2.21	28,782		0		0		0	28,782	**17,771**	16,260	1,511
North Chevy Chase	1.97	25,657		0		0		0	25,657	**15,841**	14,494	1,347
Oakmont	0.27	3,516		0		0		0	3,516	**2,171**	1,986	185
Poolesville	15.28	199,001		0		0		0	199,001	**122,866**	112,419	10,447
Rockville	133.88	1,743,605	29	58,000	7	21,686	2	1,427	1,824,718	**1,126,604**	984,992	141,612
Somerset	4.24	55,220		0		0		0	55,220	**34,094**	31,195	2,899
Takoma Park	18.24	237,551	5	10,000	1	3,098		0	250,649	**154,754**	134,197	20,557
Washington Grove	2.92	38,029		0		0		0	38,029	**23,480**	21,483	1,997
TOTAL	291.09	3,791,052	34	68,000	12	37,176	2	1,427	3,897,655	**2,406,462**	2,141,631	264,831
												12.37% increase

* Source of Data _ Montgomery County Department of Public Works and Transportation, Division of Highway Services and Parking and Traffic Services
State Highway Administration of Maryland FY 94 Recapitulation of Urban and Rural Mileage

Table 6
Transportation
By Municipality

A	B	C	D	E	F	G
Municipality	**Miles**	**Estimated FY97 Payment with current formula**		**Estimated FY97 Payment with proposed formula**		**Change C-E**
Barnesville	0.00	0		0		0
Brookeville	0.46	3,384		3,699		315
Chevy Chase, Sec. III	2.23	16,407		17,931		1,524
Chevy Chase, Sec. V	1.60	11,772		12,866		1,094
Chevy Chase View	3.40	25,015		27,339		2,324
Chevy Chase Village	8.27	60,845		66,499		5,654
Town of Chevy Chase	9.92	72,984		79,766		6,782
Drummond	0.38	2,796		3,056		260
Friendship Heights	0.83	6,107		6,674		567
Gaithersburg	70.12	515,892		571,483		55,591
Garret Park	3.92	28,841		31,521		2,680
Glen Echo	1.71	12,581		13,750		1,169
Kensington	8.17	60,109		65,695		5,586
Laytonsville	1.07	7,872		8,604		732
Martins Addition	2.21	16,260		17,771		1,511
North Chevy Chase	1.97	14,494		15,841		1,347
Oakmont	0.27	1,986		2,171		185
Poolesville	15.28	112,419		122,866		10,447
Rockville	133.88	984,992		1,126,604		141,612
Somerset	4.24	31,195		34,094		2,899
Takoma Park	18.24	134,197		154,754		20,557
Washington Grove	2.92	21,483		23,480		1,997
TOTAL	**291.09**	2,141,631		2,406,462		264,831

Source of Data
State Highway Administration of Maryland
FY 94 Recapitulation of Urban and Rural Mileage
* Other Items" as calculated include Police Crossing Guards, Senior Transportation, Elderly Shopping. Park Maintenance and a Human Relations Commission
* Estimate made using current budget estimates and adding for the estimated total cost of snow removal and storm damag
Current estimate for HUR funds also used
** Proposed Formula Uses FY95 Actual audited data, the two year lag provides time to budget the amount and time for the municipalities to plan for the payment

Table 7

County Cost Data

A	B	C	D	E	F	G	H	I	J	K	L	M	O
Year	Total Miles	Increase in Miles	Roadway Maint.	Per Mile Storm Damage	Per Mile Re-Surfacing	Per Mile Traffic Signs	Total Road Maint.	Energy/miles Cost of Street Lights per mile	Traffic Light Maint.	Total Road Maint. Including Lights/Marking		Per Bridge	Signals Each
FY93 Actual	1,997		4,666	1,192	2,199	844	8,901	2,085		10,985		2,472	2,000
FY94 Actual	2,011	15	5,610	2,499	2,585	870	11,564	2,152		13,716		2,548	2,000
FY95 Actual	2,100	89	6,494	1,083	2,242	822	10,641	2,280	103	13,024		3,098	2,000

Notos:
Data for cost of bridges and traffic signals for FY 93 estimated from FY 94
Contract for Street Light Maintenance $410,860 budget, actual $207,421

MEMORANDUM

May 10, 2001

TO: County Council

CHS

FROM: Charles H. Sherer, Legislative Analyst

SUBJECT: Recommendation from the Management and Fiscal Policy Committee regarding the Executive's amendment to the FY 02 Operating Budget for the Municipal Tax Duplication NDA for Takoma Park regarding police services ($139,870) Issue: put on recon list or not.

Committee recommendation The Committee met on May 8, 2001. Mrs. Praisner and Mr. Andrews recommend putting this item on the reconciliation list, to give time for further consideration, although they were not persuaded at the Committee meeting that the Council should approve it. Mr. Denis would not put it on the reconciliation list. The Committee requested Executive staff and the City to prepare a signed agreement specifying exactly what is being proposed for the Committee to review before presenting this item to the Council (©18).

Background on Municipal Tax Duplication This account is authorized by chapter 30A of the County code. It reimburses municipalities for services they provide instead of the County. The amount of reimbursement is the amount the County estimates is saves by not having to provide the service. The County, not the municipalities, calculates how much the County saves. The amount the County saves is the total cost saved, less any non County revenue associated with the service. Note that the County does not reimburse for services that the municipality provides but the County does not provide, because the County does not save anything. The County does not reimburse the municipalities' costs of providing the services. Instead, as stated above, the County reimburses the net cost the County would incur if the County provided the services.

Last year, the budget for Municipal Tax Duplication should have been reduced in May 2000 from the Executive's March 15, 2000 budget. The amount of reduction would have been $282,040, [from $5,082,870 to $4,800,830] because the March 15 budget reimbursed twice for some road-related costs, and because the average police salary used to calculate the reimbursement for Takoma Park was too high. With regard to the police reimbursement to Takoma Park, the County was reimbursing the City for Police Officer III positions. This **overstates** the cost the County would incur if it provided police services to the City, because the County would use a combination of POs I, II, and III.

Of the $282,040 reduction, $196,220 would have been reduced from the $1.9 million payment to Takoma Park. On May 11, 2000 OMB staff told Council staff that Takoma Park had already developed their FY 01 operating budget assuming the higher amount. Because of the impact this potential reduction would have had on the City's budget, OMB staff and Council staff proposed the following solution. The City Manager agreed by telephone on May 11. The Committee and Council later agreed.

- Add $196,220 to the FY 01 reimbursement to Takoma Park, which gives the City that much more than calculated by the formula.
- Reduce the FY 02 and FY 03 reimbursement to Takoma Park by $98,110 each year to repay the County for the over payment in FY 01, with no interest charged.

Executive amendment On April 23, 2001, the Executive recommended a number of amendments to his March 15, 2001 budget for FY 02. One of the amendments was to **increase** the payment to Takoma Park by $139,870. The result is that Takoma Park would not be repaying the FY 02 advance of $98,110, plus they would get an additional payment of $41,760 beyond the amount required by the formula.

The City states that the County should not have changed the calculation (©2-9), from reimbursing for the cost of all PO IIIs, to reimbursing for the cost of a mix of POs I, II, and III. However, the resolution the Council approved on September 10, 1996 regarding municipal tax duplication (#13-650) states that "Reimbursements will be based upon the net County property tax supported expenditures." (©1). There is no written guidance or agreement that requires the County to reimburse the City for the cost of all PO IIIs, nor is the County required to get the City's agreement or approval of the County's estimate.

Resolution No.: 13-650
Introduced: Sept. 10, 1996
Adopted: Sept. 10, 1996

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: County Reimbursements under the Montgomery County Municipal Revenue Program - Task Force Report and Recommendations

Background

1. Chapter 30A of the Montgomery County Code (1994) provides for a program which reimburses municipalities and special taxing districts for those public services provided by the municipalities which would otherwise be provided by the County.

2. Reimbursements under Chapter 30A have been made pursuant to a procedure established under Resolution 8-2222, dated October 17, 1978, which was revised and supplemented by Resolution 9-1752, dated April 27, 1982.

3. In March 1995 County Executive Douglas M. Duncan appointed County and municipal representatives to serve on the Montgomery County Task Force to Study the Municipal Tax Duplication Reimbursement Program. This Task Force was charged with reviewing the procedures and formulas used to determine the amount of the reimbursements and with making recommendations to improve these procedures and formulas.

4. The Task Force submitted its Final Report and recommendations, a copy of which is attached, to County Executive Douglas M. Duncan, on June 5, 1996.

5. The goals of the Task Force were to determine:

    a. Whether the complex formulas used to calculate the reimbursements could be simplified:

    b. Whether reimbursements could be made in a way that would provide greater

Even if there were such an agreement, it would not be consistent with the resolution or with the Final Report from the Tax Duplication Task Force, which the Council accepted in the resolution, which states that "The Task Force agreed that the basis for the reimbursement program should be the amount the County would spend to provide a duplicated service…". This amount would be the cost for a mix of POs I, II, and III, not all PO IIIs. The County should reimburse the City the amount the County saves as a result of not providing police services to the City, neither more nor less.

The City also would like to review the calculations for reimbursing the City for police services, which OMB has agreed to do. Council staff was on the 1996 Task Force and supports such a review.

Council staff recommendation Do **not** approve the additional payment to Takoma Park. There is no rationale for not requiring Takoma Park to repay the advance the Council agreed to make in FY 01, nor is there any rationale for reimbursing any municipality more (or less) than the amount required by the formula. To do so is unfair to other municipalities that are getting the formula amounts only, and is also unfair to the general taxpayers, who should not reimburse any municipality more than the County saves as a result of not providing services to municipalities.

In Council staff's view, the fact that the County and the City intend to review the calculations does not provide any basis for paying the City more than required under the current calculation. The review could result in paying more, or less, to the City than under the current calculation.

predictability to each municipality in planning the following year's budget;

c. Whether a single reimbursement could be made.

6. The Task Force recommends that the following formulas be used to determine the reimbursements for the following services provided by the municipalities:

   a. Transportation. Reimbursements shall be a percentage of the County's actual, audited per mile or per item expenditure, multiplied by the number of miles or items in each municipality. The percentage reflects the percentage of the County expenditures that are paid for with property tax revenues.

   b. Park Maintenance. Reimbursements will be based upon the same formula currently used.

   c. Code Enforcement. Reimbursements will be based upon the net County property tax supported code enforcement expenditures per dwelling or per parcel.

   d. Other services. Reimbursements will be based upon the net County property tax supported expenditures.

Action

The County Council for Montgomery County, Maryland, approves the following resolution:

1. The Final Report of the Task Force to Study the Municipal Tax Duplication Reimbursement Program is accepted and the recommendations, as outlined in the report, are accepted for funding within the Municipal Revenue Program

2. The recommendations contained in the Report will be implemented beginning in Fiscal Year 1997.

3. Reimbursement payments to municipalities will be made once a year, by October 1.

4. Reimbursements for Fiscal Year 1997 will be based upon Fiscal Year 1995 actual, audited expenditures from the County's comprehensive annual financial report. Thereafter annual reimbursements will continue to be based upon the actual audited expenditures using a similar two year interval.

5. Municipalities will not be required to submit their expenditures but will be required to provide annual certification of eligible services

6. The Task Force will meet annually to review the municipal revenue program.

7. To the extent that the County Council is required to meet annually and discuss with each municipality the rate for assessments or the tax reimbursement program, the Council delegates this duty to the County Executive or his delegate, who should then report back to the County Council.

This is a correct copy of Council action.

Mary A. Edgar

Mary A. Edgar, CMC
Secretary of the Council

APPROVED:

Douglas M. Duncan

Douglas M. Duncan
County Executive

City of Takoma Park, Maryland

OFFICE OF CITY ADMINISTRATOR
TELEPHONE (301) 270-1700
FAX (301) 270-8794

7500 MAPLE AVENUE
TAKOMA PARK, MD 20912

May 5, 2001

The Honorable Marilyn Praisner
Chair, Management and Fiscal Policy Committee
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Mrs. Praisner:

The City of Takoma Park respectfully requests an opportunity to meet with the Management and Fiscal Policy Committee to discuss recent actions concerning the Municipal Tax Duplication figures for Takoma Park related to police services. I understand the Committee is scheduled to meet on Monday and there may be an opportunity to have this item added to the agenda. I appreciate your willingness to work with us during this very busy time.

We belatedly learned that the MFP Committee met on May 2nd to consider an adjustment to the Takoma Park MTD for police services. An e-mail was sent to me on May 1st alerting me to the meeting, but unfortunately I was not able to access my e-mails until after Wednesday's committee meeting. It was also unfortunate that an important letter from Robert Kendal to me was not made available to Mr. Sherer before the meeting to be considered by the Committee.

Our concerns are as follows. Last year, the police rebate was significantly reduced from previous years. We were told that in previous years the calculations had been done incorrectly and that therefore we would be receiving $196,220 less than expected in FY01. Rather than have our budget harmed last year, we were told we could pay this amount back over the next two years. We agreed, providing an explanation for the calculation change could be adequately explained. We were persistent, but largely unsuccessful, in trying to sit down with OMB staff to understand the change in calculations. In researching the calculations and speaking with County staff, we learned unofficially in January of this year that the method for calculating police salaries had been changed without notice or consultation. This was finally confirmed by OMB staff in March. There are significant issues related to this new method of calculation. Because of this, and because the City was not notified of the method change until so late in the fiscal year, an agreement was reached between the City and the Executive's Office to jointly review the merits and effects of the new method of calculation.

With the outcome of this joint review uncertain, the agreement also included a proposed budget amendment increasing the payment to Takoma Park by $139,870, which is less than the City would have received under the past agreed method of calculation. Given the issues involved, this is an understandable figure as we go through the review process. The timeframes of the agreement also allow the City time to prepare for any repayments, if merited, that may be deemed to be needed once the review is completed.

We ask the Management and Fiscal Policy Committee, and the Council as a whole, to allow this joint review process to proceed under the terms of the agreement the City has with the Executive. We therefore ask that the proposed budget increase of $139,870 be approved.

Thank you for your consideration.

Sincerely,

Richard M. Finn

Richard M. Finn
City Administrator

cc: C. Sherer
B. Romer
R. Kendal
J. Beach

RECEIVED
APR 27 2001
Office of City Administrator

MONTGOMERY COUNTY 1776 MARYLAND

OFFICE OF MANAGEMENT AND BUDGET

Douglas M. Duncan
County Executive

Robert K. Kendal
Director

April 26, 2001

Mr. Richard M. Finn
City Administrator
City Hall
7500 Maple Avenue
Takoma Park, Maryland 20912

Dear ~~Mr. Finn:~~ Rich

Thank you for meeting with Mr. Romer, Mr. Beach, and me last week regarding concerns the City has regarding payments made by Montgomery County that relate to police services. This letter attempts to capture the agreements we reached at that meeting.

To provide a starting point, I have attached a display of how OMB has calculated the amount we believe is due to the City for FY02 for police services. This is the part of the tax duplication reimbursement that was not included in our recent letter to you that covered all other services. You will see that by our calculations the correct amount would be $1,208,850.

On behalf of the City, you have asked that we suspend judgment on the amount of money due in FY02 in order that additional discussion can take place. Mr. Romer has agreed to that. Further, you asked that we continue to pay in FY02 pursuant to the "old" approach (last used for the payment in FY00) and that we not require any repayment by the City of any funds advanced in FY01. After discussion, Mr. Romer agreed to support about one-half of this request. Mr. Romer's offer would cut by one-half the reduction that the City would have experienced in FY02. (See attached.) Finally, Mr. Romer agreed that the County, via OMB, would participate in discussions with the City about the police reimbursement subject with the following understandings:

- By its fiscal actions for FY02, the County is not at this time agreeing to the validity of any claims or contentions by the City regarding amounts due in FY01 or later;

- The County views the amount of $1,348,720 above at this time as $139,870 in excess of the amount properly due to the City ($1,302,096 less the first repayment of $93,246) and considers it, therefore, as another advance to the City, subject to repayment.

Mr. Richard M. Finn
April 26, 2001
Page 2

- Any discussions this summer must begin with delivery by the City to the County, by May 31, 2001, of a specific proposal on calculation of the reimbursement for police services including the specific cost elements, as a starting point.

- All discussions must conclude by October 31, 2001, in order for the results to be factored into County and City budget preparation for FY03.

On Monday, April 23, 2001, Mr. Duncan agreed to Mr. Romer's recommendation pursuant to the agreement above and included $139,870 in his budget amendment memorandum to the County Council. We will have to monitor the Council's actions between now and the end of May to determine their reaction to the County Executive's proposal regarding the City.

I am designating Joe Beach, OMB's Operating Budget Manager, as your contact in this matter. He and I will work closely with you to complete discussions by the target date (hopefully, sooner). Joe can be reached at (240) 777-2778.

Sincerely,

Robert K. Kendal, Director
Office of Management and Budget

RKK:rpc

Attachment

cc: Bruce Romer, Chief Administrative Officer
Joseph Beach, OMB

m:\dircorr\Finn2 April 26

	C	D	E	F
2				
3	**Municipal Tax Duplication - Payment for Takoma Park Police**			
4				
5				
6		**FY01**	**FY02**	**Change**
7	Officer Salaries and Fringes	1,845,605	1,866,678	21,073
8	Personal Patrol Vehicles	244,919	239,384	(5,535)
9	Deduction for Police NDA	(385,550)	(385,550)	-
10	Deduction for State Grant	(407,753)	(428,689)	(20,936)
12	Subtotal - MTD Payment	1,297,221	1,291,823	(5,398)
14	Correction of NDA Amount		10,273	10,273
16	Subtotal after Correction	1,297,221	1,302,096	4,875
18	Repayment due		(93,246)	(93,246)
20	Net NDA Payment	1,297,221	1,208,850	(88,371)
22	Special FY01 Payment to City	186,492		(186,492)
24	Total Amount Due	1,483,713	1,208,850	(274,863)
26	CAO Adjustment	-	139,870	139,870
28	Total CAO Recommendation	1,483,713	1,348,720	(134,993)
30	Amount over calc'd payment	186,492	46,624	
31				
32				
33	Note: The Officer Salaries and Fringes numbers for FY01 and FY02 were each increased			
34	by $1 to adjust for a rounding error. KA 3/27/01			
35				
36	The CAO Adjustment was made at a meeting with RKK, JB, Rick Finn, Jim Rosenthal, and			
37	the CAO on 4/17/2001. The $139,870 equals the FY01 transition payment ($186,492) plus			
38	deferral of the first repayment ($93.246), divided by two.			

APPENDIX:
CALCULATION OF FY02 AMOUNT DUE TO TAKOMA PARK FOR POLICE SERVICES (PRIOR TO CAO RECOMMENDED ADJUSTMENT FOR FURTHER TRANSITION).

Updated: February, 2001

OMB staff has been working to clarify all aspects of MTD payments to municipalities, with the hope of making payments more understandable and easier to develop. The County's MTD payments for FY01 and the payments that are part of the County Executive's Recommended FY02 Budget have been based on the recommendations in the Tax Duplication Task Force Final Report, dated June 5, 1996. This report is not more specific about calculations for the Takoma Park police payment other than: 1) using actual net County expenditures for two prior years; and 2) using the standard of the expenditures that would be incurred had the County provided the service.

In the process of verifying payments for the FY01 Operating Budget, we discovered that the salaries and fringes that had been used for Police Officers were probably based on Police Officer III's only, not the combination of County police officers that would normally staff a police station. Based on the guidance of the Tax Duplication Report, there is no justification for using PO III's only, because county patrol beats are staffed using a combination of PO I's, PO II's, and PO III's.

The numbers below represent the calculation of the County payments for Takoma Park Police services based on this methodology. Payments are based on Takoma Park's weighted workload, County costs for police and patrol vehicles, and the County's first responder annual hours per officer. The results are reduced by other State and County payments made directly to the City for Police services.

Officer Salaries and Fringes:
Police officer costs are based on the FY00 BUD211 report, which is produced by our Finance Department. Salary increases are somewhat offset by the decrease in Takoma Park's weighted workload between FY99 and FY00. See the attached sheets for details.

FY02 Recommendation	$1,866,678
FY01 Payment	$1,845,605
Increase	$ 21,073

Personal Patrol Vehicles (PPVs):
The total payment for PPVs is reduced somewhat because Takoma Park's weighted workload decreased between FY99 and FY00.

FY02 Recommendation	$ 239,384
FY01 Payment	$ 244,919
Decrease	$ -5,535

Deductions to Takoma Park Police Payments:

OMB reduces the gross police reimbursement by two amounts, the Takoma Park Police Rebate Non Departmental Account (NDA) and the Maryland State Police State Aid for Police Protection Grant. These deductions vary annually and affect the net payment to the City for Police.

	Police NDA	State Grant	Total
FY02 Recommendation	$ -385,550	$ -428,689	$ -814,239
FY01 Payment	$ -385,550	$ -407,753	$ -793,303
Increase in Deduction	$ 0	$ -20,936	$ -20,936

Total Takoma Park Police Changes:

FY02 Recommendation	$1,291,823
FY01 Payment	$1,297,221
Net Decrease	$ -5,398

In the FY01 payment we deducted too much by using the FY00 NDA payment of $385,550 (only one year prior) rather than the FY99 payment which was $375,277 (two years prior). The FY02 payment therefore must also include the restoration of $10,273 to accurately reflect the amount the City should have received in FY01. When that adjustment is made, the payment to the City would have a net increase of $4,875.

Total Net Takoma Park Police Changes:

FY02 Recommendation	$1,302,096
FY01 Payment	$1,297,221
Net Increase	$ 4,875

Special Payment to Takoma Park in FY01:

Our refined calculations last spring for FY01 notwithstanding, OMB acknowledged the City's concern that the timing of the information made preparation of the City's budget very difficult. Therefore, we joined the MFP Committee and the full County Council in honoring the City's request for the larger payment that the City believed was called for. However, OMB and the MFP Committee understood that the extra payment was to be a transition advance, to be repaid over two years (FY02 and FY03).

FY02 Recommendation	$ -93,246
FY01 Payment	$ 186,492
Net Decrease	$ -279,738

Grand Total

FY02 Recommendation	$ 1,208,850
FY01 Payment	$ 1,483,713
Net Decrease	$ -274,863

FY01 POLICE SERVICES PAYMENT TO CITY OF TAKOMA PARK

Takoma Park's Weighted Workload		16,061		
(Major D. Wortman - TPPD)				
Divided by MCPD First Responder Annual Hours/ Officer		557		
Weighted Workyears		28.83		
Less 10% for MCPD Telephone Reporting Unit (TRU)		25.95		
Less 5% for MCPD False Alarm Reduction Unit (FARU)		24.65		
Patrol:		**Weighted WYs**		
Police Officer Salary & Wages	$ 42,710	24.65	$	1,052,963
Police Officer Fringe Benefits	$ 16,277	24.65	$	401,290
Patrol Vehicles	$ 8,356	24.65	$	206,007
		Subtotal —>	**$**	**1,660,259**
Criminal Investigations Division - CID (7% of Patrol Weighted WYs)				
CID Officer Salary & Wages	$ 50,766	1.73	$	87,610
CID Officer Fringe Benefits	$ 20,190	1.73	$	34,843
CID Vehicles	$ 8,356	1.73	$	14,420
		Subtotal —>	**$**	**136,874**
Supervisor Span of Control (Sum of Patrol and CID Weighted WYs/9)				
Sergeant Salary & Wages	$ 65,939	2.93	$	193,271
Sergeant Fringe Benefits	$ 25,802	2.93	$	75,627
Sergeant Vehicles	$ 8,356	2.93	$	24,492
		Subtotal —>	**$**	**293,390**
Total Gross Police Reimbursement —>			**$**	**2,090,524**
(Deductions) for other City Police-related payments				
FY00 Takoma Park Police NDA ($0.12 per $100)			$	(385,550)
Maryland State Police 1999 State Aid for Police Protection Grant			$	(407,753)
Net Takoma Park Police Services Payment —>			**$**	**1,297,221**

FY02 POLICE SERVICES PAYMENT TO CITY OF TAKOMA PARK

Takoma Park's Weighted Workload		15,698	
(Lt. James Rosenthal - TPPD - 2/13/01, FY00 data)			
Divided by MCPD First Responder Annual Hours/ Officer		557	
Weighted Workyears		28.18	
Less 10% for MCPD Telephone Reporting Unit (TRU)		25.36	
Less 5% for MCPD False Alarm Reduction Unit (FARU)		24.10	
		Weighted WYs	
Patrol:			
Police Officer Salary & Wages*	$ 44,859	24.10	$ 1,080,948
Police Officer Fringe Benefits*	$ 16,414	24.10	$ 395,521
Patrol Vehicles **	$ 8,356	24.10	$ 201,351
		Subtotal —>	**$ 1,677,820**
Criminal Investigations Division - CID (7% of Patrol Weighted WYs)			
CID Officer Salary & Wages*	$ 54,219	1.69	$ 91,454
CID Officer Fringe Benefits*	$ 20,782	1.69	$ 35,054
CID Vehicles**	$ 8,356	1.69	$ 14,095
		Subtotal —>	**$ 140,603**
Supervisor Span of Control (Sum of Patrol and CID Weighted WYs/9)			
Sergeant Salary & Wages*	$ 67,186	2.86	$ 192,475
Sergeant Fringe Benefits*	$ 24,862	2.86	$ 71,225
Sergeant Vehicles**	$ 8,356	2.86	$ 23,938
		Subtotal —>	**$ 287,639**
Total Gross Police Reimbursement —>			**$ 2,106,062**
(Deductions) for other City Police-related payments			
FY99 Takoma Park Police NDA ($0.12 per $100) **[Correcting Error]**			$ (375,277)
Maryland State Police 2000 State Aid for Police Protection Grant			$ (428,689)
Net Takoma Park Police Services Payment —>			**$ 1,302,096**

* Salaries and Fringes come from BUD 211 for FY00.

City of Takoma Park, Maryland

Richard M. Finn
City Administrator

OFFICE OF CITY ADMINISTRATOR
TELEPHONE (301) 270-1700
FAX (301) 270-8794

CORPORATE SEAL OF THE CITY OF TAKOMA PARK MARYLAND INCORPORATED APRIL 5, 1890

7500 MAPLE AVENUE
TAKOMA PARK, MD 20912

March 13, 2001

Mr. Robert Kendal
Director, Office of Management
and Budget
101 Monroe St., 14th Floor
Rockville, MD 20850

Dear Bob:

Pursuant to our discussion on Friday, March 2, I am submitting this letter as a proposal by the City on how we can resolve our differences as it pertains to the calculation of the City's Police rebate formulae. As I understand it several years ago the City and County worked for many hours in a spirit of cooperation and ultimately reached a Rebate formulae that was agreeable to by both parties. Up until FY 2000-01 the Formulae was calculated in the same manner by the County. However, during the FY 2000-01 the County changed one of the components used in the calculation of the formulae which unfortunately had a negative effect on the amount of the rebate that the City was eligible to receive from the County.

Recently, with the cooperation of the County Office of Budget and Management Staff the City determined that the components of the formulae that had changed pertained to how the County calculated the average cost of the County Police Officers. Up until FY 2000-01 the County had used the average cost of a County PO III in its calculation of the City's Police rebate. However, during the 2000-01 FY the County changed the manner that it calculated this component of the formulae and used the average of all County PO I, PO II, and PO III positions. Since the PO I and PO II positions are paid less then the PO III positions the effect of the change was that the average cost of a County Police Officer for purposes of the Police Rebate formulae was reduced by approximately \$10,000. The net effect of this change was that the City's allocation for FY 2000-01 was approximately \$280,000 less then it would have been if the County has used the same Formulae that it had previously used.

The City's purpose at this time is not to debate the merits of the County's change to the formulae but to appeal to the appropriate County official the actions that were taken last year. If the

County wishes to amend the formulae (or any of its components) the City is prepared to meet and discuss the matter. However, at the present time the City makes the following proposal:

- That the County recalculate the FY 2000-01 FY Police rebate formulae and use the average cost of a County PO III and then adjust the City's Police rebate calculation accordingly.
- That the County calculate the FY 2001-02 Police rebate using the average cost of a County PO III.
- That the City and the County set a meeting date ASAP to review the existing Police rebate formulae and to define a fair and equitable rebate formulae that recognizes the legal requirements as well as fairness issue (to both County and City taxpayers). The results of these discussions would be used in identifying a Police rebate formulae that would be used in FY 2002-03.

We look forward to your consideration of this request. As I indicated to you during our telephone discussion, it is my desire to resolve this matter at the Staff level if it is at all possible. If you would like to meet to discuss this matter further, please let me know and I will do my best to accommodate your schedule. Given the County Budget cycle, I believe it is in our mutual interest to get this matter resolved as quickly as possible.

Sincerely,

Richard M. Finn
City Administrator

C:\MyFiles\RMF_Kendal.wpd:pff:March 13, 2001 (2:20pm)

Police Rebate file

MEMORANDUM:

TO: Richard M. Finn
City Administrator

FROM: Linda C. McKenzie
Finance

James G. Rosenthal
Police Department

SUBJECT: Duplicate Tax Rebate, Montgomery County

DATE: 5 February 2001

On 12 January 2001, we met with members of the Montgomery County Office of Management and Budget, headed by Joseph Cifelli, to discuss the FY01 and FY02 police department rebate. During that meeting we learned that for purposes of the FY01 rebate, the County changed the means in which they calculated the salary of police officer. Because of the change, the County was of the belief that the City had been paid more money than was earned.

The original numbers given to us by the County were $52,297 for salary and after our budget was in process, the County changed the number to $42,710 thus causing a shortage in our budget. At the time of this change, the County was not able to tell us how the numbers were obtained nor what justification they had to change them. During a subsequent meeting, which you attended, we learned that the County was investigating means to lower the amount of money returned to the City as part of the police rebate.

For FY01 rebate purposes, the County changed the practice of using the salary of "POIIIs" to using an average of POI, POII and POIII, with POI and POII having smaller salaries. The County made this change without any negotiation or notification. It was after the change that the County made the assertion that the City had been overpaid.

Investigation by us indicate a clear past practice of using POIII salary for rebate purposes; FY98, the salary was $54,720, FY99, the salary was $ 51,026 and (originally) FY01, the salary was $52,297. We do not have the salary numbers for FY00. The salary numbers are based on a two (2) year delay, e.g. the FY98 salary numbers were actual FY96 salaries.

Using the two (2) year delay factor, the City does not owe the County for over payment and it is our belief that the salaries used for the FY02 police rebate should be based on the actual FY98 POIII salary line. Should the County or the City want to change the method used for the police rebate, it should be negotiated.

attachments (3)

cc: Chief Anderson
file

City of Takoma Park, Maryland

Richard M. Finn
City Administrator
OFFICE OF CITY ADMINISTRATOR
TELEPHONE (301) 270-1700
FAX (301) 270-8794

CORPORATE SEAL OF THE CITY OF TAKOMA PARK MARYLAND INCORPORATED APRIL 3, 1890

7500 MAPLE AVENUE
TAKOMA PARK, MD 20912

file

November 17, 2000

Robert Kendall, Director
Office of Budget and Management
101 Monroe Street, 14th Floor
Rockville, MD 20850

Dear Mr. Kendall:

Please accept this letter as an official request to meet with you and your appropriate Staff members to discuss the Takoma Park Police rebate formula. As you will recall, the City was advise during a meeting at your office last Spring that its Police rebate allocation would be significantly reduced due to an error in how the formulae as calculated. More specifically, we were advised that several years ago one of your Staff members used the wrong Montgomery County Police average personnel cost information when calculating the Takoma Park formulae. Due to this error, you informed us that the City had been receiving a larger rebate then what was provided for by the approved formula. As a result, the City was advised that our Police rebate allocation from the County would be decreasing by approximately $150,000 during the 2000-01 fiscal year.

During our meeting last spring you illustrated on the summary sheets what the correct personnel cost figures were and how the corrected figures reduced the Takoma Park Police rebate allocation. However, at that time the City was only shown the total numbers that were inserted into the Rebate Summary Sheets. You advised us that due to a change in the Staff the error was identified and corrected as part of the 2000-01 FY budget process.

Although the City can appreciate that errors do occur the effect of this error has caused a significant fiscal impact on the City's existing Police department budget and it will have a profound negative effect on future budgets. During the months of January, February and March, the City was given what you later identified as incorrect information. We were advised that this had occurred because there was a new employee assigned to putting the rebate formulae together. The fact that we are being effected by the use of different numbers calculated by a different employee is of major concern to the City. We would like to meet with you, Brian Hunt and Ketta Abeshouse so that we can come to understand what errors were made and how they were made. Equally important, we want to learn how the County Staff developed two different calculations for the average cost for County Police personnel during two successive years.

Please understand that the City views this matter as a serious fiscal issue and we need to fully understand what happened and why it happened. We view the change made by the County in determining how the average cost of County Police expenditure is calculated as a change in the formulae and therefore something that should be discussed and negotiated.

Realizing that you are in the process of beginning the 2001-02 fiscal budget it would seem that we should meet and discuss this matter as soon as possible. I would like to call you prior to the Thanksgiving weekend so that we can schedule a meeting. Thank you for you cooperation and I look forward to resolving this matter to our mutual satisfaction.

Sincerely,

Richard M. Finn
City Administrator

cc: City Council
Asst. City Administrator Wayne Hobbs
City Clerk Cathy Sartoph
City Treasurer Linda McKenzie

Police Salaries and Fringes - As in Personnel Complement and FAM211

Year	Average Salary Sergeant	Average Fringes Sergeant	Total Pers Costs Sergeant	Average Salary Pol Officer	Average Fringes Pol Officer	Total Pers Costs Pol Officer	Average Salary CID	Average Fringes CID	Total Pers Costs CID
FY97	58,838	25,783	84,621	39,914	16,459	56,372	46,784	19,392	66,176
FY98	62,674	27,163	89,837	41,554	16,835	58,389	49,806	21,829	71,635
FY99	65,939	25,802	91,742	42,710	16,277	58,987	50,766	20,190	70,956
Numbers Used for FY 00 Payment:									
	63,291	27,792	91,083	51,026	22,077	73,103	51,026	22,077	73,103

MEMORANDUM

TO: Marilyn Praisner, Chair
Management and Fiscal Policy Committee

FROM: Robert K. Kendal, Director, Office of Management and Budget
Richard M. Finn, City Administrator, City of Takoma Park

DATE: May 10, 2001

SUBJECT: Municipal Tax Duplication Regarding Takoma Park Police Services

As discussed with the MFP Committee on May 8, we are jointly providing the terms of the negotiation that the County and the City wish to have concerning the municipal tax duplication formula regarding Takoma Park Police services.

The City has asked that the County suspend judgment on the amount of money due in FY02 in order that additional discussion can take place. The County Executive has agreed to that. Further, the City asked that the County continue to pay in FY02 pursuant to the "old" approach (last used for the payment in FY00) and that the County not require any repayment by the City of any funds advanced in FY01. After discussion, the Executive agreed to support about one-half of this request, cutting by one-half the reduction that the City would have experienced in FY02. Finally, the Executive agreed that the County, via OMB, would participate in discussions with the City about the police reimbursement subject with the following understandings:

- By its fiscal actions for FY02, the County is not at this time agreeing to the validity of any claims or contentions by the City regarding amounts due in FY01 or later.

- The County views the amount of $1,348,720 as $139,870 in excess of the amount properly due to the City ($1,302,096 less the first repayment of $93,246) and considers it, therefore, as another advance to the City, subject to repayment.

- Any discussions this summer must begin with delivery by the City to the County, by May 31, 2001, of a proposal for the reimbursement for police services including the specific cost elements, as a starting point.

- The City's proposal will include a number of factors to evaluate in the discussion of the formula in its efforts to have the formula accurately reflect the fair cost to the County of providing police services to Takoma Park if Takoma Park did not have a full-service police department. The City and County will discuss what police salary computation should be used in the police formula to obtain an accurate salary figure. The items to discuss will also include at least the following, none of which are included in the current formula:

1) **Police equipment and supplies.** Both the City and County provide police officers with uniforms, weapons, bullet resistant vests, portable police radios, report forms and many other supplies.

2) **Victim/witness assistance.** Both the City and County provide victim/witness coordinator services.

3) **Equipment for Police vehicles.** Both the City and County provide various equipment for police patrol vehicles (e.g., emergency lights, sirens and radios), K-9 vehicle equipment, and Mobile Data Terminals with the associated modems and antennas.

4) **D.A.R.E. instruction.** Both the City and County provide D.A.R.E. instruction and supplies to schools.

5) **Records management, property and communications.** Both the City and County maintain records systems; process, store and dispose of impounded or other received property; and receive calls for service in a communications center.

6) **Civilian staff "in lieu of" police officers.** Both the City and the County use civilian staff in non-traditional ways to free up sworn officers for enforcement activities.

- As a result of these discussions, the 'County Executive may recommend to the County Council a change in the existing formula that further defines the variables used to calculate the reimbursement to accurately reflect what the County would actually pay to provide police services to the City of Takoma Park at the same level as the County currently provides outside of the city. (Note: the fact that the City may expend funds on things similar in character to what the County spends money on does not dispose of the central question: is there tax duplication for the same level of service as the County provides elsewhere. A related issue is whether or not the County would need to incur any additional expenditures, over what it is presently spending, to provide in the City the County's current level of service. The County enters into these discussions with the presumption that the formula negotiated several years ago, accurately calculated, continues to provide a reasonable basis each year for the tax duplication reimbursement. Nonetheless, the County will explore the City's issues in good faith with them.) If a change to the existing formula is recommended, the revised formula will be reduced to writing and describe a process for future revisions to the formula if one of the parties feels an adjustment is needed to maintain an accurate amount of reimbursement.

- All discussion must conclude by October 31, 2001, in order for the results to be factored into County and City budget preparation for FY03.

- If the County Executive recommends a revised formula it would be effective beginning with the FY01 budget (based on FY99 figures), provided however that the City not receive a larger payment for FY01 than would have been obtained under the pre-FY01 method of calculating the formula. Depending on the resulting formula, the City may not be required to pay back part or all of the funds considered to be "advanced" to the City in FY01 and FY02.

cc: Douglas M. Duncan, County Executive
Bruce Romer, Chief Administrative Officer

Appendix P

	A	B	C	D	E	F	G	H	I	J	K	L
1												
2		**Parks - FY12**										
3												
4		**Park Maintenance FY84 costs with annual CPI**		Rockville	Takoma Park	Gaithersburg	Friendship Heights	Poolesville	Chevy Chase	Kensington	Section 3 of the Village of Chevy Chase	
5		FY95 Payment			57,579		45,796	29,270	7,291	28,440		
6		FY96 Payment			59,306		47,170	30,148	7,510	29,293		
7		FY97 Payment			61,026		60,672	31,022	7,728	30,143		
8		FY98 [CPI @ 1.3% - Pg 4-12 FY00 CE Rec]			$ 62,857		$ 62,492	$ 31,953	$ 7,959	$ 31,047		
9		FY99 [CPI @ 2.0% - calendar year basis]			64,114		63,742	-	8,119	31,668		
10		FY00 [CPI @ 3.1 % - calendar year basis]			66,102		65,718		8,371	32,650		
11		FY01 [CPI @ 3.2 % - Fiscal Year Basis]			68,217		67,821		8,639	33,695		
12		FY02(CPI @2.3%-Fiscal Year Basis)			69,786		69,381		8,838	34,470	3,491	
13		FY03(CPI @2.8-Fiscal Year Basis)			70,127		69,720		8,881	34,638	3,589	
14		FY04(CPI @2.7-Fiscal Year Basis)			70,059		69,652		8,872	34,605	3,689	
15		FY05(CPI @3.5-Fiscal Year Basis)			70,605		70,195		8,941	35,850	3,715	
16		FY06(CPI @3.7-Fiscal Year Basis)			72,368		71,948		9,165	35,885	3,825	
17		FY07(CPI @3.5-Fiscal Year Basis)			72,581		72,160		9,192	37,105	3,852	
18		FY08(CPI @3.1-Fiscal Year Basis)			74,831		74,397		9,477	38,255	3,971	
19		FY09(CPI @2.15-Fiscal Year Basis)			76,440		75,997		9,681	39,077	4,056	
20		**FY10(CPI @1.1-Fiscal Year Basis)**			77,281		76,833		9,787	39,507	4,101	
21												
22		Based on Actual CPI				**Total FY12 Payments ---->**			**$ 207,509**			
23												
24												
25												

FY12 Road Maintenance Related Payments

Municipality	# Road Miles *	Payment Miles $22,782	# of traffic signals	Traffic signal Energy $1,713	# Traffic sig's Maintained**	Traffic signal Maint cost $4,692	# of beacons	Maint/Energy per beacon $224	# of bridges	Bridge Payment $2,755	# of Ped. Bridges	Pedestrian Bridge $ -	SUB TOTAL	Tax Suported 97.79% Payment Total
Barnesville	0.00	0		0		0	0	0		0		0	0	**0**
Brookeville	0.67	15,173		0		0	0	0		0		0	15,173	**14,837**
Chevy Chase, Sec. III	2.23	50,804		0		0	0	0		0		0	50,804	**49,679**
Chevy Chase, Sec. V	1.60	36,451		0		0	0	0		0		0	36,451	**35,644**
Chevy Chase View	3.40	77,458		0		0	0	0		0		0	77,458	**75,743**
Chevy Chase Village	8.12	184,989		0		0	0	0		0		0	184,989	**180,893**
Town of Chevy Chase	9.92	225,996		0		0	0	0		0		0	225,996	**220,992**
Drummond	0.38	8,657		0		0	0	0		0		0	8,657	**8,465**
Friendship Heights	0.82	18,681		0		0	0	0		0		0	18,681	**18,267**
Gaithersburg	87.98	2,004,417	0	0		0	0	0	5	13,777		0	2,018,194	**1,973,505**
Garrett Park	3.99	90,968		0		0	0	0		0		0	90,968	**88,954**
Glen Echo	1.71	38,957		0		0	0	0		0		0	38,957	**38,094**
Kensington	8.17	186,219		0		0	0	0	3	8,266		0	194,485	**190,179**
Laytonsville	1.07	24,377		0		0	0	0		0		0	24,377	**23,837**
Martin's Addition	2.21	50,348		0		0	0	0		0		0	50,348	**49,233**
North Chevy Chase	1.97	44,880		0		0	0	0		0		0	44,880	**43,886**
Oakmont	0.27	6,151		0		0	0	0		0		0	6,151	**6,015**
Poolesville	17.35	395,265		0		0	0	0		0		0	395,265	**386,513**
Rockville	156.06	3,555,270	39	66,812	45	211,133	6	1,344	13	35,821	3	0	3,870,380	**3,784,678**
Somerset	4.24	96,595		0		0	0	0	1	2,755		0	99,351	**97,151**
Takoma Park	34.73	791,283	0	0	0	0	0	0	2	5,511		0	796,794	**779,150**
Washington Grove	3.70	84,293		0		0	0	0		0		0	84,293	**82,426**
TOTAL	**350.60**	$ 7,987,233	39	$ 66,812	45	$ 211,133	6	$ 1,344	24	66,130	3	0	8,332,652	**8,148,141**

* State Highway Administration of Maryland - Form HPS-60

**Per Emad Elshasei (240-314-8508, VMX 12/22/06), the City of Rockville owns/maintains 39 signals. The City also maintains 6 additional signals which are owned by MSHA. The City owns/maintains 6 beacons.

**Per B. Mangum and O. Mumpower (301-258-6370)Gaithersburg does not maintain traffic signals.

	A	B	C	D	E	H	I	J	K	L	M
4	**Municipal Tax Duplication**										
5	**FY12 MTD Payment**										
6	**Highway User Revenue Percentage Calculation**										
7				**Source**		**DOT Tax-Supported Operating Expenditures (A)**					
8	1) DOT Tax-Supported Operating Expenditures	$	94,503,993	Gen fund expenditures in OPD, DES, DTPS, & DHS plus proportional amount of Dir. Off. **(AF+AJ)**		**Source**	**Division**	**Index**	**Funding**	**Notes**	
9						AA	Dir Off	5010	2,587,829	Includes oversight of facility management and construction.	
10	2) Debt Service (Roads and Storm Drains)*	$	51,732,527	CAFR - Exhibit B-7 **(B)**							
11	**TOTAL EXPENDITURES**	$	146,236,520			AB	DCD	5045	2,013,380		
12						AC	Hwy Svc Adm	N/A		Consilidated with AD	
13	3) LESS: Other Rev. Sources (Grants, fees, and charges)*					AD	Hwy Svc Field	506002	80,916,835		
14	SHA payment to County for maintenance of Traffic Signals	$	676,775	Actuals Revenue Summary DOT (C)		AE	Traffic Oper	506501	9,008,597		
15	DOT Service Fees	$	119,997	CAFR Exhibit A-7 **(D)**		AF		Subtotal	91,938,812		
16		$	-								
17	Storm Drainage Maintenance	$	3,995,488	2007 Lih Jiang, Finance **(E)**		AG		Tot GF09	95,338,366		
18	**TOTAL REVENUES**	$	(4,792,260)			AH		Tot GF excl 5010	92,750,537		
19											
20	4) EQUALS: Net Tax Supported Expends	$	141,444,260	C11 + C18		AI		Ratio AF/AH	0.9912483	Portion of Director's Office for overhead	
21						AJ		Portion of 5010	**2,565,181**		
22	5) SHA - Highway User Revenues	$	3,132,031	CAFR Exhibit A-7 **(D)**							
23								Total = AF+ AJ	**94,503,993**		
24	Ratio of HUR to County Expenditures (HUR Ratio)		**2.21%**								
25											
26	Tax Supported Percentage		**97.79%**								
27											
28											
29											

C:\Users\richas\AppData\Local\Microsoft\Windows\Temporary Internet Files\OLK51B4\FY13 Tax Duplication Payment APPR (2).xls

County Expenditures for Roadway Maintenance - FY12 MTD			Source	
Total County Expenditures on Comprehensive Roadway Maintenance		**$52,230,104**		
Total County Miles (Mileage Determined by SHA for County and Municipalities)		**2,293**	R	
Per Mile County Expenditures on Comprehensive Roadway Maintenance		*$22,782*		$10,271.41
Breakdown of Comprehensive Roadway Maintenance Expenditures	**AMOUNT**	**Cost Per Mile**		
Roadway Maintenance - Operating Budget -	***$13,456,956***	**$5,870**		
Road Patching (all types of asphalt repairs)	$5,364,870		A	
Roadside Maintenance (i.e. shoulder maintenance, litter pickup, etc)	$990,740		B1 + B2	
Maintenance and Cleaning of Storm Drains	$2,453,702		C	
Mowing	$1,370,955		D	
Tree Maintenance	$1,616,683		E	
Maintenance of Curbs, gutters and sidewalks	$1,340,436		F1 + F2	
Resurfacing - Micro Seal portion	$319,571		G	
Roadway Maintenance - Capital Improvement Program (CIP)	***$23,934,136***	**$10,440**		
Primary Arterial Resurfacing CIP No.508527	$6,784,000		J	
Rural Residential Resurfacing CIP No.500511	$9,941,136		K	
Clarksburg Area Rehabilitation CIP No.500711	$0		L	
Sidewalk and Infrastructure (curb/gutter replacement) CIP No.508182	$7,209,000		M	
Other Items Reimbursed on a per mile Basis	***$14,839,012***			
Snow Removal and Wind and Storm Damage Clean-up	$2,797,241	**$1,220**	H1 + H2 + H3+ H4	
Traffic Signs and Pavement Marking	$1,560,570	**$681**	I	
Energy Costs for Streetlighting	$9,164,575	**$3,997**	N	
Streetlighting Maintenance (Operating and CIP Project No. 507055)	$1,316,626	**$574**	O + P	
Total	***$52,230,104***	***$22,782***		
Expenditures for Other Roadway Components (Reimb. to Selected Municipalities)	**$5,906,745**	**Unit Cost**		
Beacon Maintenance & Energy (assumes 226 beacons):**Cost per Beacon**	$50,618	**$224**	X	
791 Traffic Signals - Maintenance (Operating and CIP Project No. 507154):**Cost per Signal**	$3,711,256	**$4,692**	S+U-Beacon M., W	
791 Traffic Signals - Energy (Operating)**Cost per Signal**	$1,355,084	**$1,713**	T-Beacon E.	
305 Bridges - Bridge Maint. (maint. is funded in the CIP projects below)**Cost per bridge**	$840,405	**$2,755**	Y+Z+AA	
Bridge Renovation (CIP No. 509753 GO. Bond funded Portion)				
Bridge Preservation (CIP No. 500315)				
TOTAL ROADWAY MAINTENANCE AND OTHER COMPONENTS	***$58,136,849***			

FY12 "Other" Items in Municipal Tax Duplication

County Cost Data for other items		County	Rockville	Takoma Park	Gaithersburg	F.ship Heights	Chevy Chase	Source
Population		954,600	61,267	18,329	60,455	4,512	2,882	A
Board of Appeals - Famis-Dept 02								B
Expenditures	$	596,995						
Revenue	$	229,963						
Net Tax Supported Cost	$	367,032						
County cost per person served	$	0.39					$ 1,111	
Zoning and Administrative Hearings - FAMIS- Dept. 05								C
Expenditures	$	491,723						
Revenue	$	35,080						
Net Tax Supported Cost	$	456,643						
County cost per capita	$	0.48					$ 1,383	
Crossing Guard Calculation- Index code 47101819B								D, E
Total Salaries and Fringes for Crossing Guards	$	4,230,452						
Number authorized positions		177						
Calculated Avg Sal & Fringes per position	$	23,901						
Takoma Park Crossing Guards		8		$ 191,207				
Human Rights - Famis Dept 46								F, G
County General Fund Personnel + OE Costs		2,107,950						
Revenue		103,900						
Net Tax Supported Cost		2,004,050						
OHRC Authorized Positions		18.0						
Average Net Tax Supported Cost/ POS	$	111,336						
OHRC incremental WYs to serve Rockville		1.5	$ 167,004					
Senior Community Services (Grocery shopping, Transportation, Health etc.)								
Expenditures - FAMIS 645013101 -**subtract** Sub object code 2186)		556,754						H, I
Revenue		-						
Net Tax Supported Cost	$	556,754						
County cost per capita	$	0.59				$ 2,644		
Senior Transportation (Seniors to Rec/Nutr Sites)								I
Expenditures - FAMIS 645013101 - Sub code 2186 **Only)**	$	655,391						
County cost per capita	$	0.79	$ 48,474		$ 47,831	$ 3,570		
Animal Control - Costs are from Humane Society contract								
Animal Field Services appropriation only (all municipalities use the County shelter)	$	944,201						J
Revenue		-						
Net Tax Supported Cost	$	944,201						
County cost per capita	$	1.06	$ 64,965		$ 64,104			

Appendix Q

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GOVT

MONTGOMERY COUNTY 1776 MARYLAND

OFFICES OF THE COUNTY EXECUTIVE

Douglas M. Duncan
County Executive

Bruce Romer
Chief Administrative Officer

September 7, 2004

010828

Ms. Barbara Matthews, City Administrator
City of Takoma Park
7500 Maple Avenue
Takoma Park, Maryland 20912

Dear Ms. Matthews: Barbara

In accordance with paragraph three of the attached Memorandum of Understanding (MOU) between the County and the City of Takoma Park for Municipal Tax Duplication – Payment for Police Services, this is our notice that the County will be using a different methodology to calculate the police patrol staffing using actual prior year data and that this new methodology will be reflected in the calculation of the FY07 municipal tax duplication (MTD) payment to the City for Police services. We believe that this change in methodology serves as sufficient cause for our staffs to meet and discuss the assumptions and methods used for calculating the payment to the City as provided under paragraph 13 of the MOU.

This new method uses the actual County data on first responder annual hours per officer less sick, annual, and compensatory leave; and less mandated training. These numbers are calculated based on actual data from the prior year (e.g. FY05 data will be used for FY07).

In addition, the calculation for administrative time will also be changed to reflect actual data. The estimate used in the past was 31 percent. Based on more recent information this would be changed to 16 percent. The administrative time percentage is calculated from the data that the County's Police Department collected in 2000 as part of a patrol time study to assess how an officer spends his or her time. Under this new method, the County will update the above information annually to calculate the MTD police payment to the City.

RECEIVED
MONTGOMERY COUNTY
COUNCIL
2004 SEP -7 PM 2:10

ALL-AMERICA COMMUNITY Montgomery County

101 Monroe Street • Rockville, Maryland 20850
240/777-2500, TTY 240/777-2544, FAX 240/777-2517
www.co.mo.md.us

If you have any questions on this issue or if you wish to discuss further, please contact Paul Folkers at 240-777-2514 or me.

Sincerely,

Bruce Romer
Chief Administrative Officer

Br:JFB

Attachments

Copies
Douglas M. Duncan, County Executive
Steven A. Silverman, Council President
Tom Perez, County Council District 5
George Leventhal, Council At Large
Marilyn Praisner, Chair, Management and Fiscal Policy Committee
Paul Folkers, Assistant Chief Administrative Officer
Beverley Swaim-Staley, Director, Office of Management and Budget
Suzanne Ludlow, City of Takoma Park

MEMORANDUM OF UNDERSTANDING: TAKOMA PARK MUNICIPAL TAX DUPLICATION PAYMENT FOR POLICE SERVICES

Purpose: The purpose of this Memorandum of Understanding (MOU) is to define the method Montgomery County, Maryland (the County) will use to calculate the payment to the City of Takoma Park (the City) for police services under Chapter 30A of the Montgomery County Code. It is understood that the amount of the reimbursement is limited to the amount the County Executive estimates the County would expend if it were providing the services, and that all expenditures by the County are subject to the limits of the funds appropriated by the County Council.

It is also understood that this memorandum represents the entire agreement between the County and the City with regard to the method to calculate the payment to the City for police services.

Definitions: The following words have the meanings indicated:

Police Officer: Refers to an authorized position in the personnel complement of the County's Police Department which may be filled at the Police Officer I, II, or III level.

City: The City of Takoma Park

County: Montgomery County, Maryland

Current Approved Budget: The current budget year for the County government which begins on July 1st and ends on the following June 30th. For example, FY02 began on July 1, 2001 and will end on June 30, 2002.

Prior Year Approved Budget: The approved budget in the year immediately preceding the Current Approved Budget. For example, on December 15, 2001 the Current Approved budget is the FY02 budget and the Prior Approved Budget is the FY01 budget.

Recommended Budget: The County Executive's Recommended operating budget for the next fiscal year. For example during FY02, the Recommended budget is the FY03 budget.

Terms:

All of the terms of this agreement replace any previous Agreement between the City and the County on the financial, but not operational, arrangements regarding the provision of Police Services in the City. This Agreement does not modify any operational arrangements between the City and the County Police Department. This Agreement also does not modify the formula for calculating the annual payment to the City required under MCC §35-5 (appropriated in the Takoma Park Police Rebate Non Departmental Account). The municipal tax duplication payment (MTD) from the County to the City for Police services must be based on the amount the County Executive estimates it would cost the County to provide the service and would include the following:

1. **Personnel Costs:**
   (a) Personnel costs for the number of police officers the County would provide for both patrol and investigations. See the attached chart for the calculation of staffing for patrol and investigations. Personnel costs will include salaries, social security, group insurance, and retirement. The source of these cost estimates will be the County's prior year approved personnel complement (BPR 211 report). For example, the FY03 MTD

payment will be based on the FY01 BPR211 report.

(b) Personnel costs will include any general wage adjustments and service increments that were negotiated with the Fraternal Order of Police Lodge #35 and are effective for the prior year approved budget. The costs will also be an average of filled and vacant Police Officer positions that are assigned to: a) Patrol: the County's district stations (currently Rockville, Germantown, Silver Spring, Glenmont/Wheaton, and Bethesda); and b) Investigations: defined as all Police Officer positions working as investigators in the Criminal Investigations Division.

2. **Supplies and Equipment**: The tax duplication payment will also include the annual cost budgeted per police officer for ongoing supplies and equipment. This includes uniform replacement and cleaning, ammunition, batteries, communication, and other reasonable and necessary costs to maintain a police officer. The source of this information will be the County Police Department's Management and Budget Division using the prior year approved budget.

3. **Patrol:**
(a) The County will derive the estimated number of Police Officers required for patrol based on the model or practice in use by the County to staff patrol beats at the time the prior year approved budget was adopted. Currently, the County uses a weighted workload (WWL) model for calculating patrol staffing (see attached chart for an example). For example, to calculate the FY03 payment the County will use the WWL model because it was the model in use at the time of adoption of the prior year approved budget (FY01). A different methodology is currently under review by the County. The County will notify Takoma Park in a timely manner if a different patrol staffing method is adopted.

(b) In order to calculate the required patrol staffing for Takoma Park, the City will need to provide to the County no later than December 15 of each year, its weighted workload figures for the prior fiscal year. For example, for calculation of the FY04 payment, the City would provide the County's Budget Director with the FY02 weighted workload data (7/1/2001 to 6/30/2002). However, for the FY03 payment, the County will use the Calendar Year 2000 weighted workload data provided by the City.

4. **Telephone Reporting Unit (TRU) and False Alarm Reduction Unit (FARU):** The County will continue to make a reduction to the calculation of the number of patrol officers needed to respond to the weighted workload of the City for TRU and FARU because the County's use of these work processes creates efficiencies that the County would realize if it were providing police services in the City. The reduction for TRU will be seven and one-half percent and the reduction for FARU will be five percent.

If the City implements a FARU (either on its own or through the County Police Department's FARU) then the County will remove the reduction in the calculation of Police Officers in the appropriate year (i.e., if the City implements the FARU in FY03 the deduction will be removed in FY05). If the City implements a TRU, then the County will decrease the deduction in the appropriate year to the degree of effectiveness of the City's TRU (e.g., if three percent of calls for service, on a weighted workload basis, are diverted to the city's TRU, then the reduction for TRU will be reduced from 7.5 percent to 4.5 percent).

However, adoption of related laws for a TRU will not be sufficient to eliminate these deductions. The City must implement a practical system to reduce the number of calls for service that are dispatched to police officers.

5. **Supervision**: The MTD payment will include an estimate for the cost of supervision at the Sergeant level for patrol at a ratio of one sergeant for every nine Police Officers. The payment will be based on the average personnel costs for all sergeants assigned as supervisors, in the five district stations. The County will provide the City with appropriate documentation on how this ratio was derived.

6. **Investigators**: The County will derive the estimated number of Police Officers required for investigations for Takoma Park based on the ratio of Police Officers assigned to investigative work in the Criminal Investigations Division to the number of Police Officers assigned to patrol duties in the County's five district stations. The source of this information will be the County's prior year approved personnel complement (BPR 211 report, see attached for an example).

7. **Vehicles**: The annual amortized cost for acquiring, equipping, and maintaining police vehicles based on the current year budgeted data. See attached chart for details on specific items included and the information source for this data.

8. **State Aid**: The MTD payment will also reflect a deduction for the Takoma Park Police Rebate (paid pursuant to County Code) and State Aid for Police Protection. However, the County will not deduct for the Municipal Sworn Officer Grant portion of State Aid for the number of Takoma Park Police Officers exceeding the number the County would use for providing Police services to the City of Takoma Park. For example, if the County would use 30 officers for serving Takoma Park and the City has 41 officers, the deduction for State Aid will not reflect the eleven additional officers employed by Takoma Park. See the attached chart for an example of how this will be calculated.

9. **Prior Year Payments:** The revised formula is effective beginning with the FY01 budget, provided however that the City can not receive a larger payment for FY01 or FY02 than would have been obtained under the pre-FY01 method of calculating the formula. The City will not be required to pay back part or all of the funds considered to be advanced by the County in the FY01 and FY02 budgets.

10. **Inflation**: None of the items in the reimbursement formula will change with the rate of inflation, but instead will be based on the costs in the current approved budget. For example, the FY03 payment will be based on costs used in the FY01 Approved budget.

11. **Reorganizations:** If the names or organizational units referenced above change through reorganization or other administrative or legal processes, the County will continue to calculate the tax duplication payment using the personnel costs of Police Officers assigned to patrol duties and investigative duties.

12. **Notification:** The County will notify the City of its recommended amount for reimbursement when the County publishes the Recommended Budget, but no later than March 20th of each year.

13. **Review:** Staff from the County and the City will meet once every three years, or sooner upon the request of either party for cause, to discuss the assumptions and methods used for calculating the payment to the City.

MEMORANDUM OF UNDERSTANDING: TAKOMA PARK MUNICIPAL TAX DUPLICATION PAYMENT FOR POLICE SERVICES

14. We the undersigned concur with this Memorandum of Understanding and will abide by its terms:

Bruce Romer, Chief Administrative Officer
Montgomery County, Maryland

12-17-02
Date

Richard M. Finn, City Administrator
City of Takoma Park, Maryland

1-3-03
Date

Approved as to Form and Legality

Betty N. Ferber Dec. 10, 2002
County Attorney Date

Introduced By: Councilmember Williams

Resolution No. 2002-73

Resolution Authorizing City Manager to Sign Police Rebate Memorandum of Understanding

WHEREAS, citizens of the City of Takoma pay taxes for police services to both the City of Takoma Park and Montgomery County; AND

WHEREAS, the County Code provides for a rebate of County taxes to the City of Takoma Park in an amount that the County Executive estimates the County would spend if it were providing the services; AND

WHEREAS, the process for estimating that amount had been a subject of confusion and dispute during the last two budget seasons; AND

WHEREAS, staff of the City and County met to review the formula and discuss any needed revisions to either the formula or process to update the formula; AND

WHEREAS, several clarifications and changes to the formula were made to more accurately represent the amount the County Executive estimates the County would spend on police services if it were providing those services; AND

WHEREAS, the City of Takoma Park and Montgomery County wish to formalize in a Memorandum of Understanding those changes to the formula and process related to tax duplication reimbursement for police services.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF TAKOMA PARK, MARYLAND THAT the City Council hereby **authorizes** the City Manager to approve a Police Rebate Memorandum of Understanding reflecting the recently negotiated formula and formula update process for tax duplication reimbursement for police services.

Adopted this 23 day of September, 2002.

Catherine E. Waters

Catherine E. Waters, CMC/AAE
City Clerk

MEMORANDUM OF UNDERSTANDING: TAKOMA PARK MUNICIPAL TAX DUPLICATION PAYMENT FOR POLICE SERVICES

ATTACHMENTS (For example only; cost data may change each year):

1. Weighted Workload Model (used for calculation of patrol, supervisory, and investigation staff)
2. BPR211 Report (used for calculation of personnel costs for patrol, supervisory, and investigations). Included as an
3. Vehicle Cost Chart

FY03 POLICE SERVICES PAYMENT TO
CITY OF TAKOMA PARK - BASED ON THE NEW MOU

Takoma Park's Weighted Workload		17,241	
(Lt. James Rosenthal - TPPD - 2/13/01, FY00 data)			
Divided by MCPD First Responder Annual Hours/ Officer		557	
Weighted Workyears		30.95	
Less 7.5% for MCPD Telephone Reporting Unit (TRU)		28.63	
Less 5% for MCPD False Alarm Reduction Unit (FARU)		27.20	
Patrol:		**Weighted WYs**	
Police Officer Salary,Wages & Fringe	$ 63,387	27.20	$ 1,724,134
Supplies and Equipment	$ 1,335	27.20	$ 36,312
Patrol Vehicles **	$ 8,059	27.20	$ 219,207
		Subtotal ---->	**$ 1,979,653**
Criminal Investigations Division - CID (8.5% of Patrol Weighted WYs)			
CID Officer Salary, wages& Fringe Benefits	$ 77,292	2.31	$ 178,701
Supplies and Equipment	$ 1,335	2.31	$ 3,087
CID Vehicles**	$ 8,059	2.31	$ 18,633
		Subtotal ---->	**$ 200,420**
Supervisor Span of Control (Sum of Patrol and CID Weighted WYs/9)			
Sergeant Salary,Wages & Fringe Benefits	$ 95,161	3.28	$ 312,046
Supplies and Equipment	$ 1,335	3.28	$ 4,378
Sergeant Vehicles**	$ 8,059	3.28	$ 26,427
		Subtotal ---->	**$ 342,851**
Total Gross Police Reimbursement ---->			**$ 2,522,924**
(Deductions) for other City Police-related payments			
FY01 Takoma Park Police NDA Rebate			$ (387,193)
Maryland State Police 2001 State Aid for Police Protection Grant			$ (424,515)
Net Takoma Park Police Services Payment ---->			**$ 1,711,216**

* Salaries and Fringes come from BUD 211 for FY01.

The cost of a PPV was shown as $8,192 in FY98, and increased by 2% for FY99 to $8,356.
Information from Fleet Mgmt and Police Department for FY01 has a total cost of $8059.

Takoma Park Officers	41
Required by MC for Police Services	32.79
Net additional TP Officers	8.21
State Municipal Officer Grant per officer	$1,800
Amount to Reduce State Aid	$14,775.00
Total Maryland State Police Protection Grant: FY01	$ 439,290
Net Maryland State Police Protection Grant	$424,515

Field Services Bureau (FSB) Workload Analysis:

The FSB weighted workload (WWL) categorizes each call for service that Dispatch and Communications receives into one of 95 classifications. For each type of call, police staff have estimated the amount of time that a first responder officer must spend on a call, including writing any necessary reports. **One weighted workload unit equals 0.5 staff hours (30 minutes).**

Once the weighted workload units are calculated over a 12 month period, they are updated to reflect calls for service handled by the Telephone Reporting Unit (TRU). TRU calls are weighted and subtracted from the total weighted workload for FSB. The result are workload units handled only by first responders.

To determine the number of first responders needed to handle annual workload, the annual weighted workload hours per first responder officer is calculated. Remember weighted workload is calculated in 30 minute units, so hours must be converted to units. The calculation works as follows:

Hours per workyear less sick, annual, compensatory, and mandated training:		1,639
Less 35% for Community Policing activities (non-call related)	0.35	(574)
Less 31% Status Time	0.31	(508)
Total First Responder Annual Hours per Officer		557

(MCPD/ OMB is currently reviewing the FSB weighted workload and assumptions.
The example shown reflects the workload and assumptions used in the Police Facilities Master Plan.)

The chart is the Workload Analysis Formula. Please note the factors as described above (weighted workload, TRU, dedicated response time) and how they are applied within the formula.

WORKLOAD ANALYSIS FORMULA - PATROL OFFICERS

Item:		MCPD
1. Weighted Workload Units		605,147
2. Less 10% TRU Workload	(0.10)	(60,552)
3. Total Weighted Workload - (In half-hour units)		544,595
4. Weighted Units to Full Hours - (Half of line 3)		272,298
5. First Response Hours per Officer per Year		557
6. Subtotal First Response Officers Needed (Line 4 / Line 5)		489
7. First Response Officer Allocation		464
8. Less Limited / Light Duty Officers		(30)
9. Total First Response Officers Allocation		434
10. Total First Response Officers Needed (Line 6 - Line 9)		55

:ON : 472021 POL ROCKVILLE DISTRICT

OB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
03063	POLICE CAPTAIN	1.00	1.00	98,642.33	43,157.93	141,800.26
03065	POLICE LIEUTENANT	3.00	3.00	247,483.45	93,690.20	341,173.65
03067	POLICE SERGEANT	11.00	11.00	761,301.95	285,030.31	1,046,332.26
03074	MASTER POLICE OFFICE	12.00	12.00	730,014.74	258,589.06	988,603.80
03080	*POLICE OFFICER III	98.00	98.00	4,544,115.15	1,746,743.39	6,290,858.54
03500	POLICE DIST STN ASST	1.00	1.00	32,468.96	10,511.89	42,980.85
03501	POLICE SERVICES AIDE	7.00	7.00	284,116.62	71,546.66	355,663.28
09273	OFFICE SERVICES COOR	1.00	1.00	44,440.83	17,115.26	61,556.09
SUBTOTAL	FULL TIME	134.00	134.00	6,742,584.03	2,526,384.70	9,268,968.73
03080	*POLICE OFFICER III	4.00	2.00	93,421.17	42,958.40	136,379.57
SUBTOTAL	PART TIME	4.00	2.00	93,421.17	42,958.40	136,379.57
09900	OVERTIME		4.94	342,600.76	26,108.54	368,709.30
SUBTOTAL	OTHER		4.94	342,600.76	26,108.54	368,709.30
TAL SECTION	472021	138.00	140.95	7,178,605.96	2,595,451.64	9,774,057.60

MONTGOMERY COUNTY BPREP PRODUCTION REPORTS
BPS DEPARTMENT PERSONNEL PROJECTION COMPLEMENT

RUN DATE: 05/24/2000
RUN TIME: 11:23 AM
PAGE NUM: 9

SECTION : 472022 POL BETHESDA DISTRICT

JOB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
003063	POLICE CAPTAIN	1.00	1.00	102,917.19	40,184.77	143,101.96
003065	POLICE LIEUTENANT	3.00	3.00	253,612.15	95,444.71	349,056.86
003067	POLICE SERGEANT	11.00	11.00	756,141.03	293,504.77	1,049,645.80
003074	MASTER POLICE OFFICE	11.00	11.00	667,086.42	248,561.58	915,648.00
003080	*POLICE OFFICER III	101.00	101.00	4,715,691.56	1,740,170.23	6,455,861.79
003501	POLICE SERVICES AIDE	6.00	6.00	251,744.15	61,553.09	313,297.24
009273	OFFICE SERVICES COOR	1.00	1.00	44,427.64	9,298.66	53,726.30
SUBTOTAL	FULL-TIME	134.00	134.00	6,791,620.14	2,488,717.81	9,280,337.95
003501	POLICE SERVICES AIDE	2.00	1.00	39,097.52	18,504.06	57,601.58
SUBTOTAL	PART TIME	2.00	1.00	39,097.52	18,504.06	57,601.58
009900	OVERTIME		5.17	383,702.22	29,240.72	412,942.94
009962	CHG. TO PARKING FUND		-1.15	-84,853.61	-6,466.40	-91,320.01
SUBTOTAL	OTHER		4.02	298,848.61	22,774.32	321,622.93
TOTAL SECTION	472022	136.00	139.02	7,129,566.27	2,529,996.19	9,659,562.46

:CTION : 472023 POL SILVER SPRING DISTRICT

JOB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
003063	POLICE CAPTAIN	1.00	1.00	98,642.33	43,157.93	141,800.26
003065	POLICE LIEUTENANT	3.00	3.00	246,177.53	96,758.88	342,936.41
003067	POLICE SERGEANT	14.00	14.00	973,511.92	381,312.97	1,354,824.89
003074	MASTER POLICE OFFICE	13.00	13.00	773,642.50	280,542.65	1,054,185.15
003080	*POLICE OFFICER III	124.00	120.00	5,413,456.33	1,980,747.20	7,394,203.53
003501	POLICE SERVICES AIDE	7.00	7.00	269,597.76	76,802.87	346,400.63
009273	OFFICE SERVICES COOR	1.00	1.00	44,440.83	12,320.13	56,760.96
SUBTOTAL	FULL-TIME	163.00	159.00	7,819,469.20	2,871,642.63	10,691,111.83
009900	OVERTIME		7.09	527,238.04	40,173.65	567,411.69
009962	CHG. TO PARKING FUND		-1.15	-84,853.61	-6,466.40	-91,320.01
SUBTOTAL	OTHER		5.94	442,384.43	33,707.25	476,091.68
TOTAL SECTION	472023	163.00	164.94	8,261,853.63	2,905,349.88	11,167,203.51

SECTION : 472024 POL WHEATON/GLENMONT DISTRICT

JOB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
003063	POLICE CAPTAIN	1.00	1.00	85,817.72	27,801.32	113,619.04
003065	POLICE LIEUTENANT	3.00	3.00	213,079.09	69,936.18	283,015.27
003067	POLICE SERGEANT	11.00	11.00	749,176.41	275,278.42	1,024,454.83
003074	MASTER POLICE OFFICE	11.00	11.00	655,011.89	253,133.81	908,145.70
003080	*POLICE OFFICER III	114.00	114.00	5,238,820.45	1,926,554.20	7,165,374.65
003501	POLICE SERVICES AIDE	7.00	6.60	250,676.51	62,697.91	313,374.42
009273	OFFICE SERVICES COOR	1.00	1.00	44,440.83	13,373.86	57,814.69
SUBTOTAL	FULL-TIME	148.00	147.60	7,237,022.90	2,628,775.70	9,865,798.60
003080	*POLICE OFFICER III	2.00	1.00	54,843.47	15,184.00	70,027.47
SUBTOTAL	PART-TIME	2.00	1.00	54,843.47	15,184.00	70,027.47
009900	OVERTIME		5.54	405,601.44	30,904.17	436,505.61
SUBTOTAL	OTHER		5.54	405,601.44	30,904.17	436,505.61
TOTAL SECTION	472024	150.00	154.14	7,697,467.81	2,674,863.87	10,372,331.68

:CTION : 472025 POL GERMANTOWN DISTRICT

JOB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
003063	POLICE CAPTAIN	1.00	1.00	102,917.19	39,681.67	142,598.86
003065	POLICE LIEUTENANT	4.00	4.00	286,516.89	103,381.50	389,898.39
003067	POLICE SERGEANT	15.00	15.00	1,033,200.60	391,530.07	1,424,730.67
003074	MASTER POLICE OFFICE	12.00	12.00	774,060.80	287,379.11	1,061,439.91
003080	*POLICE OFFICER III	142.00	142.00	6,763,562.94	2,491,272.93	9,254,835.87
003500	POLICE DIST STN ASST	1.00	1.00	32,468.96	10,754.49	43,223.45
003501	POLICE SERVICES AIDE	13.00	13.00	468,400.15	131,548.94	599,949.09
009273	OFFICE SERVICES COOR	1.00	1.00	44,440.83	10,090.11	54,530.94
009274	*PRINCIPAL ADMIN AID	1.00	1.00	25,856.03	9,772.97	35,629.00
SUBTOTAL	FULL TIME	190.00	190.00	9,531,424.39	3,475,411.79	13,006,836.18
003080	*POLICE OFFICER III	2.00	1.00	37,820.60	22,340.50	60,161.10
SUBTOTAL	PART TIME	2.00	1.00	37,820.60	22,340.50	60,161.10
009900	OVERTIME		5.92	431,074.21	32,850.86	463,925.07
SUBTOTAL	OTHER		5.92	431,074.21	32,850.86	463,925.07
TOTAL SECTION	472025	192.00	196.92	10,000,319.20	3,530,603.15	13,530,922.35

ECTION : 473060 CIMINAL INVESTIGATIONS DIVISION

JOB CLASS	JOB CLASS TITLE	POS	WY	SALARY AND WAGES	EMPLOYEE BENEFITS	TOTAL PERSONNEL COSTS
000837	PROGRAM SPEC I	4.00	4.00	161,216.16	48,944.68	210,160.84
003063	POLICE CAPTAIN	1.00	1.00	98,642.33	43,157.93	141,800.26
003067	POLICE SERGEANT	8.00	8.00	567,482.78	223,200.15	790,682.93
003074	MASTER POLICE OFFICE	11.00	11.00	692,516.97	267,640.29	960,157.26
003080	*POLICE OFFICER III	49.00	49.00	2,729,183.22	1,058,124.60	3,787,307.82
003505	LATENT PRINT EXAMINE	5.00	5.00	230,920.48	57,106.39	288,026.87
003512	PHOTO LABORATORY TEC	1.00	1.00	42,424.88	9,375.03	51,799.91
003518	CHIEF FORENSIC CHEMI	1.00	1.00	78,227.86	23,536.95	101,764.81
003519	FORENSIC CHEMIST	5.00	5.00	237,014.22	61,427.12	298,441.34
003521	EVIDENCE TECHNICIAN	6.00	6.00	210,948.87	48,868.49	259,817.36
009006	*DATA ENTRY OPERATOR	1.00	.60	10,710.38	7,524.51	18,234.89
009273	OFFICE SERVICES COOR	3.00	3.00	133,322.49	35,328.46	168,650.95
009274	*PRINCIPAL ADMIN AID	7.00	7.00	261,304.93	68,131.89	329,436.82
SUBTOTAL	FULL TIME	102.00	101.60	5,453,915.57	1,952,166.49	7,406,282.06
003519	FORENSIC CHEMIST	1.00	.50	32,195.03	11,404.50	43,599.53
SUBTOTAL	PART-TIME	1.00	.50	32,195.03	11,404.50	43,599.53
009900	OVERTIME		4.25	295,329.57	22,506.09	317,835.66
SUBTOTAL	OTHER		4.25	295,329.57	22,506.09	317,835.66
TOTAL SECTION	473060	103.00	106.35	5,781,440.17	1,98[illegible],277.08	7,767,717.25
FULL-TIME		230.00	227.60	12,886,965.13	4,711,269.79	17,598,234.92
PART-TIME		3.00	1.50	54,865.02	26,639.07	81,504.09
009900	OVERTIME		14.58	973,753.34	74,206.42	1,047,959.76
009912	PLUS HOLIDAY PAY			156,664.81	11,938.73	168,603.54
009933	LESS LAPSE		-2.28	-95,759.96	-42,354.38	-138,114.34
009949	PLUS SHIFT DIFFE			126,621.82	9,649.29	136,271.11
009950	LEAVE PAYMENT			99,999.92	7,620.56	107,620.48
009975	LEAVE PAYOUT			96,571.85	7,359.20	103,931.05
009976	MISC. PERS. COST			139,323.16	10,617.18	149,940.34
TOTAL DIVISION	4730	233.00	241.40	14,439,005.09	4,816,945.86	19,255,950.95

Police Vehicle Annual Costs: Acquisition, Maintenance, Mileage, and Equipment

	Total	Years Amortized	Annual Amount
Replacement Cost/Year			3,591
Maintenance Cost/Year			1,466
Insurance Cost/Year			72
Overhead/Year			235
Fuel/Year			872
Subtotal: Acquisition/Maintenance/Other*			**6,236**
Push Bumper	86	5	17
Decals	150	5	30
Deer Alert	5	5	1
Light Bar (Strobe)	1,800	5	360
Control Box & Speaker	310	5	62
Flasher	30	5	6
Shotgun Rack	115	5	23
Speaker Cover	8	5	2
Fire Extinguisher & Kit	52	5	10
Radio (Pre-800 Mhz)	3,000	10	300
Vehicle Preparation Fee	400	5	80
Subtotal: Equipment**	**5,956**		**891**
Total Annual Costs			**7,127**

Sources:
* MC DPWT-Division of Fleet Services
** MC Police Department

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LEGISLATION

PRINCE GEORGE'S COUNTY CODE

DIVISION 6. MUNICIPAL TAX DIFFERENTIAL
Sec. 10-183. Definitions.

(a) For purposes of this Division the following words and phrases have the meaning assigned below, except in those instances in which the context clearly indicates a different meaning:

(1) **County-wide property assessable base** shall mean the total County assessable tax base, including all municipal corporations, as used in the County's latest adopted budget.

(2) **County-wide real property assessable base** shall mean the County real property assessable tax base, including all municipal corporations, as used in the County's latest adopted budget.

(3) **County-wide personal property assessable base** shall mean the County personal property assessable tax base, including all municipal corporations, as used in the County's latest adopted budget.

(4) **Degree of services or programs** shall mean the level of eligible services or programs performed by the municipal corporation instead of the County.

(5) **Director** shall mean the Director of the Office of Management and Budget.

(6) **Eligible services or programs** shall mean those services or programs which are performed by a municipal corporation, and are wholly or partially funded from property tax revenues of the municipal corporation, instead of similar County services or programs when the similar County services or programs are wholly or partially funded from property tax revenues in the County's general fund and the services or programs are generally performed by the County in the unincorporated areas of the County.

(7) **Municipal Corporation** shall mean a city or town incorporated pursuant to Article XI-E of the Maryland Constitution which is partially or entirely within the boundaries of Prince George's County.

(8) **Net County service or program cost** shall mean the cost for a service or program as reflected in the County's latest adopted Current Expense Budget and support documents increased by the amount of indirect costs, including fringe benefits, applicable to that service or program and reduced by any fees, service charges, grants or other revenue directly attributable to that service or program.

(9) **Property tax** shall mean County general fund property tax revenues as stated in the County's latest adopted budget.

(CB-134-1983; CB-47-1984; CB-75-1997; CB-1-2001)

Sec. 10-184. Municipal Tax Differential established.

(a) There is hereby established a municipal tax differential program pursuant to Section 6-305 of the Tax-Property Article of the Annotated Code of Maryland.

(b) The County real property tax rate to be set for assessments of real property in a municipal corporation shall be calculated and established as follows:

(1) For each eligible service or program, the County shall calculate the net County service or program cost.

(2) The net County service or program cost for each eligible service or program shall be calculated to reflect the portion supported by the general fund real property tax revenues.

(3) The County shall convert the calculated cost for each eligible service or program into a real property tax rate equivalent by dividing the calculated County service cost by the Countywide real property assessable base.

(4) The differential for each municipal corporation shall be calculated by multiplying the degree of service or program performed by the municipal corporation by the real property tax rate equivalent.

(5) The differential determined pursuant to this Section shall be rounded to the nearest tenth of a cent.

(c) The County personal property tax rate to be set for assessments of personal property in a municipal corporation shall be calculated and established as follows:

(1) For each eligible service or program, the County shall calculate the net County service or program cost.

(2) The net County service or program cost for each eligible service or program shall be calculated to reflect the portion supported by the general fund personal property tax revenues.

(3) The County shall convert the calculated cost for each eligible service or program into a personal property tax rate equivalent by dividing the calculated County service cost by the Countywide personal property assessable base.

(4) The differential for each municipal corporation shall be calculated by multiplying the degree of service or program performed by the municipal corporation by the personal property tax rate equivalent.

(5) The differential determined pursuant to this Section shall be rounded to the nearest tenth of a cent.

(d) The County real property tax rate and the personal property tax rate to be levied against all property located within a municipal corporation shall be computed in the following manner:

(1) Beginning in Fiscal Year 2002, the applied tax differential rate for each municipality shall be the average of the real property tax differential rate and the average of the personal property tax differential rate calculated in accordance with Subsection (b) and Subsection (c) for the ensuing fiscal year and the calculated real property tax rate and the personal property tax rate for the current fiscal year and the immediately preceding three fiscal years, provided, however, that for purposes of determining the applied tax differential rate, the tax rate levied in fiscal years 1995 through 1998, inclusive, shall be used in lieu of a calculated rate.

(2) Beginning in Fiscal Year 2004, the real property tax differential rate and the personal property tax differential rate for each municipality shall be the average of the real property tax differential rate and the average of the personal property tax differential rate calculated in accordance with Subsection (b) and Subsection (c) for the ensuing fiscal year and the calculated real property tax differential rate and the personal property tax differential rate for the current fiscal year and the immediately preceding fiscal year.

(3) For Fiscal Year 2002, Fiscal Year 2003, and Fiscal Year 2004 only, the applied tax differential rates for each municipality shall be the average of the real property tax differential rate and the average of the personal property tax differential rate calculated in accordance with Subsection (b) and Subsection (c) for the ensuing fiscal year and the tax differential rates for the current fiscal year and the immediately preceding three fiscal years. For purposes of determining the applied tax differential rate for real property for fiscal years prior to Fiscal Year 2001, the County real property tax rate for those fiscal years shall be calculated by multiplying the real property tax rate by a factor of .40.

(CB-134-1983; CB-47-1984; CB-8-1993; CB-5-1995; CB-36-1995; CB-75-1997; CB-1-2001)

Sec. 10-185. Municipal Tax Differential applied.

(a) By December 7, the County shall notify the municipal corporation of the County's determination regarding the degree to which the municipal corporation is providing one or more eligible services in lieu of the County. Any disagreement shall be subject to negotiation between the County and the municipal corporation.

(b) If the County and the municipal corporation are unable to agree on the degree to which the municipal corporation is providing one or more eligible services or programs by January 15, the matters in dispute shall be submitted to an Arbitration Panel. The deadline may be extended by mutual agreement.

(c) The Arbitration Panel shall be comprised of the following:

(1) One member selected by the municipal corporation involved in the dispute;

(2) One member selected by the County Executive;

(3) One member selected jointly by the above members.

(d) At the arbitration hearing, the County and the municipality may present testimony, evidence, and oral argument as to the matters in dispute.

(e) The Arbitration Panel shall issue its advisory determination to the County Executive and County Council no later than February 15.

(CB-134-1983; CB-75-1997)

Sec. 10-186. Reports.

(a) The County shall provide to each municipal corporation by October 7 of each year a copy of the County's adopted Current Expense Budget for the fiscal year which began the preceding July 1, which documents shall be used in determining the tax differential.

(b) The County shall provide to each municipal corporation a standardized report form listing each potentially eligible service. Each municipal corporation shall report to the Director upon such forms and shall set forth such information as the Director may prescribe and require. Information submitted by any municipal corporation is subject to verification by the Director.

(c) Each municipal corporation shall identify, in ten percent (10%) increments, the degree to which it is providing eligible services to its citizens in lieu of the County providing those services. Each municipal corporation shall complete and return the standardized report to the County by November 7 of each year.

(CB-86-1987; CB-75-1997)

TAX DIFFERENTIAL GUIDELINES

Note: This section is provided as an operational guideline and is not intended to be a legal interpretation of the tax differential law.

TAX DIFFERENTIAL DEFINITION

The Tax Differential is a process for determining the appropriate property tax rates for residents of municipalities within Prince George's County. It is used to reduce the County government portion of the property tax bill to account for services that are provided instead by the municipal government.

To qualify, the municipality must provide a service that replaces a service that is currently being provided by the County. Therefore, any services provided by a municipality that are not funded in the County's budget or General Fund are not eligible for a tax differential credit. In addition to the criteria outlined above, the municipality must utilize some property tax revenues to pay for the service.

THE TAX DIFFERENTIAL TIMETABLE

- Each municipality must complete the Tax Differential Request forms and return them to the Office of Management and Budget (OMB) **no later than Wednesday, November 7, 2012.**
- All municipal service levels (other than zero) must include explanation and documentation. In particular, any changes in service level since the last fiscal year must be documented.
- Please provide a copy of your current budget with your request.
- The level of service section of the form must be expressed as a percentage of the total service being replaced. (Please use **10%** intervals.)
- After OMB receives the information, further information or clarification may be required. In some cases, this could include a meeting to discuss the municipality's request forms.
- The County will send a letter to each municipality indicating the calculated tax differential **no later than December 7, 2012.**
- The value of tax differential given must be agreed upon between the Office of Management and Budget and the respective municipality **no later than January 15, 2013**, otherwise the matters in dispute shall be submitted to an arbitration panel.

SERVICE CATEGORIES DEFINED

Each service category is defined by the County Budget document. Please refer to Appendix II for a detailed description of specific services provided by County departments. To help clarify, some concise guidelines are provided below.

- **Public Works**. To be eligible for the Public Works debt service credit, the municipality's service must include building and overhauling streets and owning or leasing needed public works vehicles.

- **Aging Services**. To be eligible for the Aging Services credit, the municipality must provide a social service to elderly citizens that is currently provided by the County. Whenever it is possible, any agreement with the County's Department of Family Services regarding a division of labor for this activity should be provided.

- **Housing and Community Development**. To be eligible for the Housing and Community Development credit, the municipality must provide a locally supported service in housing or community development that is currently provided by the County. This credit will apply only where a municipality performs at least one of the following services:

  - Provides a contribution, including human resources, to the Redevelopment Authority,
  - Provides grant writing, administration, reporting or monitoring services if non-CDBG (Community Development Block Grant) funded.

- **Homeland Security (Public Safety Communications)**

  - **Police Dispatch Services.** To be eligible for the Police Dispatch Services credit, the municipality must provide its own police dispatch services, including paging or 911 services.

  - **Fire Dispatch Services.** To be eligible for the Fire Dispatch Services credit, the municipality must provide its own fire communication and dispatch services, including paging or 911 services.

- **Police Patrol.** To receive this service credit, the municipality must provide police patrol services that are currently performed by the County. Therefore, a contract for patrol service to supplement the County Police is not eligible for the credit. The percentage of average weeks that patrol service is provided will guide the percentage of credit. Other factors may also be considered.

- **Police Support Services**. To receive this service credit, the municipality must provide detective services, crime laboratory services, crime analysis, and burglar alarm services. Specific agreements with the County police should be provided.

- **Police Strategic Management**. To receive this service credit, the municipality must provide its own internal support services for its police department. Please refer to the budget document for detailed breakdown of related services.

- **Fire Services**. For the Fire Services credit, the question of replacement of County costs is again central. A replacement credit applies for municipalities that provide one or more of the following:

  - Debt service on a fire station,
  - Full or partial funding for equipment, or
  - Funding for career personnel and/or training costs.

- **Animal Management**. To fully replace the County's cost in this service area, a municipality would need to provide field staff, short- and long-term boarding facilities, veterinary care, and related support services. Credit is also given for doing any part of this activity that replaces a County service.

- **Library Service**. To receive credit for Library Service, the municipality must operate a library facility that replaces the need for all or part of a County library. To receive credit for debt service the municipality must provide a facility or pay the cost of a facility used by a County library or other library that replaces all or part of the need for County library service.
- **Street Lighting**. Street Lighting includes street lighting and traffic lights. Such lighting must replace a County cost.

THE TAX DIFFERENTIAL CALCULATION PROCESS

The FY 2013 Approved Budget determines the FY 2014 Tax Differential. OMB makes the following adjustments beginning with the individual agency budgets. (The computation described below is illustrated in the Appendices to this document.) This calculation reflects the changes required by the State Truth in Taxation Law to impose two different rates for Real Property Tax and Personal Property Tax, effective in FY 2002. The impact on individual municipalities is revenue neutral.

- Step 1. Agency Budgets are adjusted by the following:
  - Indirect costs are not shown at agency levels (includes depreciation)
  - Capital outlay costs are included in the indirect costs
  - FY 2013 budget costs are reduced by non-property tax revenues directly related to service
  - FY 2013 support costs (Budget, Finance, Law, etc.) are reflected in indirect costs
  - FY 2013 services which are provided entirely by the County are eliminated
  - FY 2013 budget costs are adjusted to reflect the portion supported by General Fund Real Property Tax revenues and the portion supported by General Fund Personal Property Tax revenues.
- Step 2. FY 2013 debt service is allocated to appropriate functional categories.
- Step 3. FY 2013 remaining programs are translated into cents on the real property tax rate and personal property tax rate by dividing the cost by the FY 2013 Real Property Tax Base and Personal Property Tax Base, respectively.

This creates the base for the calculation of the tax differential for the individual municipalities.

HOW TO DETERMINE THE ESTIMATED TAX RELIEF OF A MUNICIPALITY (EXAMPLE)

	Town X	
	Real Property	Personal Property
Unadjusted Municipal Tax Rate (Service Level) for FY 2014	$0.0722	$0.1805
Unadjusted Municipal Tax Rate plus the calculated rate for each of the last 2 years (3 years total)	$0.1736	$0.4341
Divide by 3=	$0.0579	$0.1447
Equals the Tax Differential Rate for FY 2014	$0.0579	$0.1447

Times the Estimated Municipal Base	$132,864,930	$5,905,108
Divided by $100	$100	$100
Equals the Total FY 2014 Estimated Tax Relief for Town X	**$76,929 + $8,545 = $85,474**	
FY 2014 Property Tax Base of Town X	**$132,864,930 +**	**$5,905,108**
FY 2014 Total Property Tax Base Combined of Town X	**=$138,770,038**	

Service Category Description

Source: Prince George's County FY 2013 Approved Operating Budget Book (http://www.princegeorgescountymd.gov/Government/AgencyIndex/OMB/Approved_Budget_FY2013/)

Department of Public Works and Transportation

Project Management
Project Management provides administration and coordination of the Capital Improvement Program (CIP) and is organized into two divisions: Highways and Bridges Division and Right-of-Way Division.

The Highways and Bridges Division provides administration, design, and coordination of all activities necessary to prepare procurement ready contracts for construction of road, drainage, flood control, and bridge related capital improvements, as well as rehabilitation contracts for County infrastructure; inspects and manages County inventory of bridges; bids work and oversees construction of CIP projects by providing a full range of construction management services and supervision of project contractors; and manages specialized consultants engaged in the design, inspection and oversight of County construction contracts.

The Right-of-Way Division provides timely appraisal and acquisition of necessary rights-of-way and easements required for CIP projects and rehabilitation activities; provides property acquisition support for other County departments; and supports the development community in processing storm drainage easements associated with the building permit process. (Operating costs are recovered from the County's CIP.)

Transportation
Transportation provides administration and departmental coordination for its two operating divisions: Traffic Management and Operations Division and Transit Division.

The Traffic Management and Operations Division operates the Traffic Response and Information Partnership (TRIP) Center; provides coordination for traffic incidents, emergencies and special events; constructs and maintains traffic signals; designs, fabricates and installs roadway signs; and installs and maintains transverse and longitudinal traffic pavement markings on roadways.

The Transit Division manages operation of local transit services including TheBus, Call-A-Cab, Call-A-Bus, Rideshare and Fringe Parking programs. The division provides transit services to the public and special communities such as the elderly and disabled. The division also advises County officials on mass transit operations, including Metrobus, Metrorail and commuter rail services; analyzes transit data; and provides route-planning services.

Engineering
Engineering provides administration and coordination of engineering, inspections, and permitting programs; and provides technical assistance to other entities including the County Council, citizens, and development community regarding roadway design. The division is organized into two units:

Engineering and Inspection Services Division oversees design of non-CIP projects; reviews and approves subdivision street construction plans; inspects and/or issues permits for work within rights-of-way; reviews and provides input to M-NCPPC on proposed subdivisions; processes petitions to close streets; performs quality control testing on construction materials in support of permits and CIP projects; reviews storm drain/stormwater management plans, floodplain studies and delineations; reviews/approves grading plans in accordance with County's Grading Code; issues grading permits related to any proposed improvements and developments; inspects grading for building construction and landfill operations, storm drain/stormwater management pond facilities and common areas; enforces erosion/sediment control measures; administers

County's Critical Area Program; coordinates removal of illegal signs from public rights-of-way; and General Specifications and Standards for Roadways and Bridges, and Policy and Specification for Utility Installation and Maintenance Permits.

Traffic Safety Division oversees transportation infrastructure to ensure safe and efficient mobility for drivers and pedestrians, compliance with the Americans with Disabilities Act, and reduction of traffic congestion; reviews and approves traffic studies and roadway designs; designs and coordinates traffic control device installations; implements Neighborhood Traffic Management and street lighting programs; reviews, approves, and monitors traffic lane assignments and utility work within public rights-of-way; designs and reviews roadway striping, signage and maintenance of traffic plans; designs in-house traffic control signal plans and reviews and approves signal designs prepared by consultants as part of the development approval process and CIP projects.

Department of Family Services

Aging Services Division

The Aging Services Division serves as the County's Area Agency on Aging and provides advocacy and a broad range of services for older persons and their families by helping them receive assistance or remain actively involved in their community. The division ensures the provision of programs and services in accordance with the Older Americans Act.

Department of Housing and Community Development

Redevelopment Division

The Redevelopment Division serves as the administrative support for the Redevelopment Authority. This division performs the daily duties and activities of the Redevelopment Authority, as well as facilitates private sector development to help revitalize distressed communities.

Office of Homeland Security

Public Safety Communications

The Public Safety Communications Division is primarily responsible for the 9-1-1 center and the support of certain public safety technology. The 9-1-1 center provides emergency call services to citizens and dispatches services to the appropriate public safety agencies.
The division also supports certain public safety technology systems including radio communications equipment, in-car cameras and the mobile data computer information system (MDCIS) maintenance.

Police Department

Patrol Services

The Bureau of Patrol encompasses six (6) District police stations and the Special Investigations Division. As the largest bureau within the agency, the Bureau of Patrol has the primary responsibility for the prevention and elimination of crime and unsafe acts in the County. It is responsible for 24-hour, 7-day a week patrol and operational functions throughout the County. The district stations provide intelligence-based directed patrol, implementing a proactive community policing philosophy in partnership with community residents and citizens. Also, the district stations have specialized investigative, community response and traffic enforcement functions.

The Special Investigations Division addresses critical and complex criminal investigations. It incorporates seven units: the Gang Unit, the WAVE Team (Washington Area Vehicle Enforcement Team), the Violent Repeat Offenders Unit, the Scrap Metal Unit, Pawn Unit, Organized Retail Unit and the Collaborative Supervision and Focused Enforcement and Justice Assistance Grant (CSAFE/JAG) Unit. The Gang Unit focuses on identifying and dismantling organized criminal gangs operating within Prince George's County. The WAVE Team is comprised of police officers from Prince George's County and other Maryland police agencies. The task force is responsible for identifying vehicle auto theft rings and apprehending multiple auto theft offenders. Education and prevention are also presented to civic groups and community members. The Violent Repeat Offenders Unit consists of officers who aggressively target known prior violent offenders with the goal of reducing violent crime and associated criminal activity. The Scrap Metal Unit and the Pawn Unit conduct both overt and covert investigations at the 70 different pawn shops and second-hand dealers throughout the County. The Organized Retail Theft Unit investigates business-related thefts, embezzlement, fraud, and liaisons with retailers in the County that are suffering large losses.

Support Services
The Bureau of Support Services has the primary responsibility of investigating serious criminal violations of law and detecting perpetrators of crime. The Bureau is divided into five major areas: the Criminal Investigation Division, Narcotic Enforcement Division, Forensic Services Division, Special Operations Division and the Homeland Security Division/Joint Analysis Intelligence Center.

The Criminal Investigation Division (CID) is divided into the Homicide Section, Robbery Section, Special Crimes Section and the Evidence Section. They are tasked with major crime investigations including homicide, sexual assaults, child abuse, commercial and residential robberies, and repeat offenders. The Narcotic Enforcement Division (NED) is comprised of the Major Narcotic and Street Narcotic Sections. This division investigates all drug activity and organized crime. The Forensic Services Division (FSD) is comprised of the Drug Analysis Laboratory, Firearms Examination Unit, Serology/DNA Laboratory and the Regional Automated Fingerprint Identification System (RAFIS). These units are responsible for the analysis of all DNA evidence, controlled dangerous substances, firearms and latent fingerprints. The Special Operations Division (SOD) consists of the Tactical Section, Motors Section, Canine Section, Aviation Section, and Special Services Section. This division is responsible for handling high risk incidents; conducting specialized traffic enforcement; reconstructing fatal motor vehicle crashes; searching for persons and property with the assistance of canines and providing aerial support to police operations. The Homeland Security Division includes the Homeland Security Intelligence Unit and the Joint Analysis Intelligence Center (JAIC). This division establishes and maintains a proactive role in the identification and investigation of individuals and groups that seek to violate the security of Prince George's County citizens.

Strategic Management
The Bureau of Strategic Management is comprised of the following divisions: Planning and Research, Records Management, Community Services, Critical Support Services and the Executive Review Panel Chairperson.

The Planning and Research Division maintains the Department's policy system; researches the latest law enforcement technology and ensures compliance with standards set by the Commission on Accreditation for Law Enforcement Activities (CALEA). The Records Management Division is responsible for the operation and maintenance of critical information, technology, and mechanical systems within the Department. This includes the data compliance section, consisting of the National Crime Information Center (NCIC) and Validations Unit.

The Property Management Unit is responsible for maintaining the property warehouse, storing property collected by officers. The Tow Unit is also a part of the division and is responsible for monitoring, auditing and tracking the proper disposal of all motor vehicles as a result of police action. The Community Services Division provides services directly where needed. This division participates and takes the lead in community outreach programs, manages dozens of volunteers and holds a youth summer camp. The Community Services Division also coordinates the Toys for Tots operation and the Safety Patrol Educational Summer Camp. This division also includes the Crossing Guard Unit and the Police Explorers Program.

The Critical Support Services Division includes the Psychological Services Unit and the Victims Services Unit. Psychological Services provides counseling to employees and their families. The Victim Services Unit ensures compliance with State Victim Rights Laws and CALEA, and provides information and services to victims of crime in partnership with Community Advocates for Family & Youth, a non-profit group. The Executive Review Panel Chairperson convenes a monthly board in conjunction with the Internal Affairs Division, the Training and Education Division, the Bureau Chiefs, and the affected Commands to review critical use of force incidents involving officers. The Chairperson ensures that each Executive Review Panel is conducted in accordance with established rules and procedures.

Fire/EMS Department

Emergency Operations

Emergency Operations Command coordinates firefighters, paramedics and volunteers. Headed by one of the Department's Deputy Chiefs, the Emergency Operations Command oversees Fire/EMS Operations, Advanced Emergency Medical Services, Technical Rescue and the Hazardous Materials Response Team.

Administrative Services

Administrative Services Command coordinates the management, financial and support functions within the department. The division also oversees the operations of Fiscal Affairs, Research, Planning and Development, Apparatus, Maintenance, Logistics, Supply and Human Resources.

Special Operations

Special Operations Command coordinates all of the specialized non-emergency services for the agency, including Risk Management, Fire Marshal, Professional Standards, Training and Technical Services.

Department of Environmental Resources

Animal Management

The Animal Management Division licenses dogs, cats and ferrets; impounds and assists stray, vicious or sick animals; inspects holding facilities and pet stores; investigates animal cruelty complaints; and maintains animal adoption and redemption programs. Volunteer and educational programs are provided to encourage proper care and humane treatment of animals. The care and feeding of animals, maintenance of the kennel area, receiving of calls, and euthanasia services are provided under contract.

Memorial Library

Public Services

The Public Services Division includes all of the facilities, services, and programs that provide direct service to the public, namely the Audio-Visual Department, the Public Documents Library, the Correctional Center Library, and the eighteen branch libraries, as well as the Public Services Office under the supervision of the Associate Director for Public Service.

Any County agency reorganizations that reallocated revenues among agency divisions between FY 2012 and FY 2013 are linked accordingly in the fiscal 2014 tax differential calculations.

FY 2014 MUNICIPAL TAX DIFFERENTIAL REQUEST FORM

City/Town

Calculation Source Prince George's County FY 2013 Adopted Operating Budget and Municipality FY 2013 Adopted Operating Budget

Instructions Identify below the degree (0% to 100% with 10% increments) that the services listed below ARE NOT PROVIDED BY THE COUNTY GOVERNMENT TO RESIDENTS OF YOUR TOWN/CITY AND WHICH YOUR JURISDICTION PROVIDES IN LIEU OF THE COUNTY SERVICE. Please provide your FY 2012 adopted budget, FY 2013 adopted budget, and other support documentations. Note: No requests will be considered without appropriate documents. Prior year granted service degree does not serve as the base for the FY 2014 decision. All rates are in cents.

Submission ELECTRONIC REQUEST FORM SUBMISSION IS REQUIRED. Please email the completed electronic form to Beth McCoy at bvmccoy@co.pg.md.us. BACKUP DOCUMENTATION CAN BE SENT THROUGH REGULAR MAIL IF AN ELECTRONIC VERSION IS NOT AVAILABLE. Please send mail to: 14741 Governor Oden Bowie Drive, Suite 3000, Office of Management and Budget, Attn: Beth McCoy, Upper Marlboro, MD 20772.

OMB Contacts

Terri Bacote-Charles, OMB Director (301) 952-3218
Beth McCoy, Budget and Management Analyst (301) 952-2639

Service Category	County Real Property Tax Rate Equivalent (a)	County Personal Property Tax Rate Equivalent (b)	Degree of Service Provided by Municipality in lieu of County (%) (c)	Real Property Tax Differential Rate (d) = (a) x (c)	Personal Property Tax Differential Rate (e) = (b) x (c)
PUBLIC WORKS					
Engineering	0.05	0.13		0.00	0.00
Debt	2.21	5.10		0.00	0.00
Subtotal	**2.26**	**5.23**		**0.00**	**0.00**
HUMAN SERVICES					
Aging	0.05	0.11		0.00	0.00
Housing & Community Development	0.16	0.38		0.00	0.00
Subtotal	**0.21**	**0.49**		**0.00**	**0.00**
COMMUNITY SAFETY					
Homeland Security - Public Safety Communications					
Police Dispatch	0.74	1.71		0.00	0.00
Fire Dispatch	0.13	0.30		0.00	0.00
Subtotal	**0.87**	**2.01**		**0.00**	**0.00**
Police					
Patrol Services	6.22	14.35		0.00	0.00
Support Services	1.79	4.14		0.00	0.00
Strategic Management	1.20	2.78		0.00	0.00
Debt	0.03	0.06		0.00	0.00
Subtotal	**9.24**	**21.33**		**0.00**	**0.00**
Fire					
Administrative Services	0.71	1.65		0.00	0.00
Emergency Operations	5.40	12.46		0.00	0.00
Debt	0.19	0.43		0.00	0.00
Subtotal	**6.30**	**14.54**		**0.00**	**0.00**
Volunteer Fire	**0.75**	**1.74**		**0.00**	**0.00**
ENVIRONMENTAL SERVICES					
Animal Management	**0.32**	**0.75**		**0.00**	**0.00**
LIBRARY					
Library	1.11	2.57		0.00	0.00
Debt	0.21	0.48		0.00	0.00
Subtotal	**1.32**	**3.05**		**0.00**	**0.00**
NON-DEPARTMENTAL					
Street Lighting/Traffic Signal	0.40	0.94		0.00	0.00
Subtotal	**0.40**	**0.94**		**0.00**	**0.00**
GRAND TOTAL	**21.67**	**50.08**		**0.00**	**0.00**

Preparer Name ______________________

Title ______________________

Mailing Address

Street ______________________

City, State, Zip Code ______________________

Phone Number ______________________

Fax Number ______________________

E-mail Address ______________________

FY 2014 MUNICIPAL DESCRIPTION OF SERVICES FORM

City/Town

Calculation Source Prince George's County FY 2013 Adopted Operating Budget and Municipality FY 2013 Adopted Operating Budget

Instructions Identify below each service category for which you are requesting a tax differential for FY 2014. Include a detailed description of each service category, noting the type of service, the hours and days each service is provided, the number of positions providing each service, the amount and source of funds used to provide each service, and any other relevant information that will help the County determine eligibility. You also may use this form to propose other services that you believe could be eligible for a tax differential in future fiscal years.

Submission ELECTRONIC REQUEST FORM SUBMISSION IS REQUIRED. Please email the completed electronic form to Beth McCoy at bvmccoy@co.pg.md.us. BACKUP DOCUMENTATION CAN BE SENT THROUGH REGULAR MAIL IF AN ELECTRONIC VERSION IS NOT AVAILABLE. Please send mail to: 14741 Governor Oden Bowie Drive, Suite 3000, Office of Management and Budget, Attn: Beth McCoy, Upper Marlboro, MD 20772.

OMB Contacts

Terri Bacote-Charles, OMB Director	(301) 952-3218
Beth McCoy, Budget and Management Analyst	(301) 952-2639

Service Category	Description of Eligible Service Provided by the Municipality
PUBLIC WORKS	
Engineering	
Debt	
HUMAN SERVICES	
Aging	
Housing & Community Development	
COMMUNITY SAFETY	
Homeland Security - Public Safety Communications	
Police Dispatch	
Fire Dispatch	
Police	
Patrol Services	
Support Services	
Strategic Management	
Debt	
Fire	
Administrative Services	
Emergency Operations	
Debt	
VOLUNTEER FIRE	
ENVIRONMENTAL SERVICES	
Animal Management	
LIBRARY	
Library	
Debt	
NON-DEPARTMENTAL	
Street Lighting/Traffic Signal	
Other Services Proposed for a Tax Differential	

Preparer Name ____________________
Title ____________________
Mailing Address
Street ____________________
City, State, Zip Code ____________________
Phone Number ____________________
Fax Number ____________________
E-mail Address ____________________

Part XXII LOCAL HIGHWAY FINANCE REPORT Department of Transportation			LOCAL GOVERNMENT Montgomery County YEAR ENDING (d/m/yyyy) 6/30/2011
Prepared by:	Almon Turner	Phone:	240-777-8817

I. DISPOSITION OF HIGHWAY-USER REVENUES AVAILABLE FOR LOCAL GOVERNMENT EXPENDITURES

ITEM	A. Local Motor-Fuel Taxes	B. Local Motor-Vehicle Taxes	C. Receipts from State Highway-User Taxes	D. Receipts from Federal Highway Administration
1. Total receipts available	0	0	2352970	0
2. Minus amount used for collection expenses	0	0		
3. Minus amount used for nonhighway purposes	0	0	0	
4. Minus amount used for mass transit	0	0	0	0
5. Remainder used for highway purposes	0	0	2352970	0

I. RECEIPTS FOR ROAD AND STREET PURPOSES		II. DISBURSEMENTS FOR ROAD AND STREET PURPOSES	
ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local government sources		**A. Local highway disbursements**	
1. Local highway-user taxes		1. Capital outlay	107551699
a. Motor fuel *(from Item I.A.5)*	0	2. Maintenance	18559810
b. Motor vehicle *(from Item I.B.5.)*	0	3. Road and street services	
c. TOTAL *(a+b)*	0	a. Traffic control operations	6570666
2. General fund appropriations	253171843	b. Snow and ice removal	56046245
3. Other local imposts	7451505	c. Other	0
4. Miscellaneous local receipts	2180680	d. Total *(a. through c.)*	62616911
5. Transfers from toll facilities	0	4. General administration & misc.	8082809
6. Proceeds of sale of bonds and notes		5. Highway law enforcement and safety	17933466
a. Bonds-original issues	66600000	6. TOTAL *(1 through 5)*	214744695
b. Bonds refunding issues	0	**B. Debt service on local obligations**	
c. Notes	67500000	1. Bonds	
d. Total *(a.+b.+c.)*	134100000	a. Interest	19514454
7. TOTAL *(1 through 6)*	396904028	b. Redemption	33606359
B. Private contributions	544091	c. Total *(a.+b.)*	53120813
C. Receipts from State Governments (from Part XX)	8144013	2. Notes	
D. Receipts from Federal Government (from Part XX)	0	a. Interest	227647
E. Total receipts (A.7+B+C+D)	405592132	b. Redemption	85000000
		c. Total *(a.+b.)*	85227647
		3. TOTAL *(1+2)*	138348460
		C. Payments to State for highways	0
		D. Payments to toll facilities	0
		E. Total disbursements (A.6+B.3+C+D)	353093155

IV. LOCAL HIGHWAY DEBT STATUS
(Show all entries at par)

	Opening debt	Amount Issued	Redemptions	Closing debt
A. Bonds (Total)	394244452	66600000	33606359	427238093
1. Bonds *(refunding portion)*				
B. Notes *(Total)*	106500000	67500000	85000000	89000000

NOTES AND COMMENTS

Municipal Tax Duplication and Revenue Sharing in Montgomery County MD

OLO Report 2013-6

Gov't Operations and Fiscal Policy Committee
July 15, 2013

Council Assignment

- Conduct literature/research review
- Research other counties' programs
- Examine County's program history
- Solicit stakeholder observations
- Seek strategies to improve fairness

Double taxation arises when…

1) A county and municipality provide similar services both financed by property taxes, and

2) A county does not provide those services within municipal limits because the city already does.

An MTD program transfers value from a county government to either municipal taxpayers or their governments to address double taxation inequities.

Without an MTD program, municipal property owners would pay municipal and county taxes for services they only receive from their municipality.

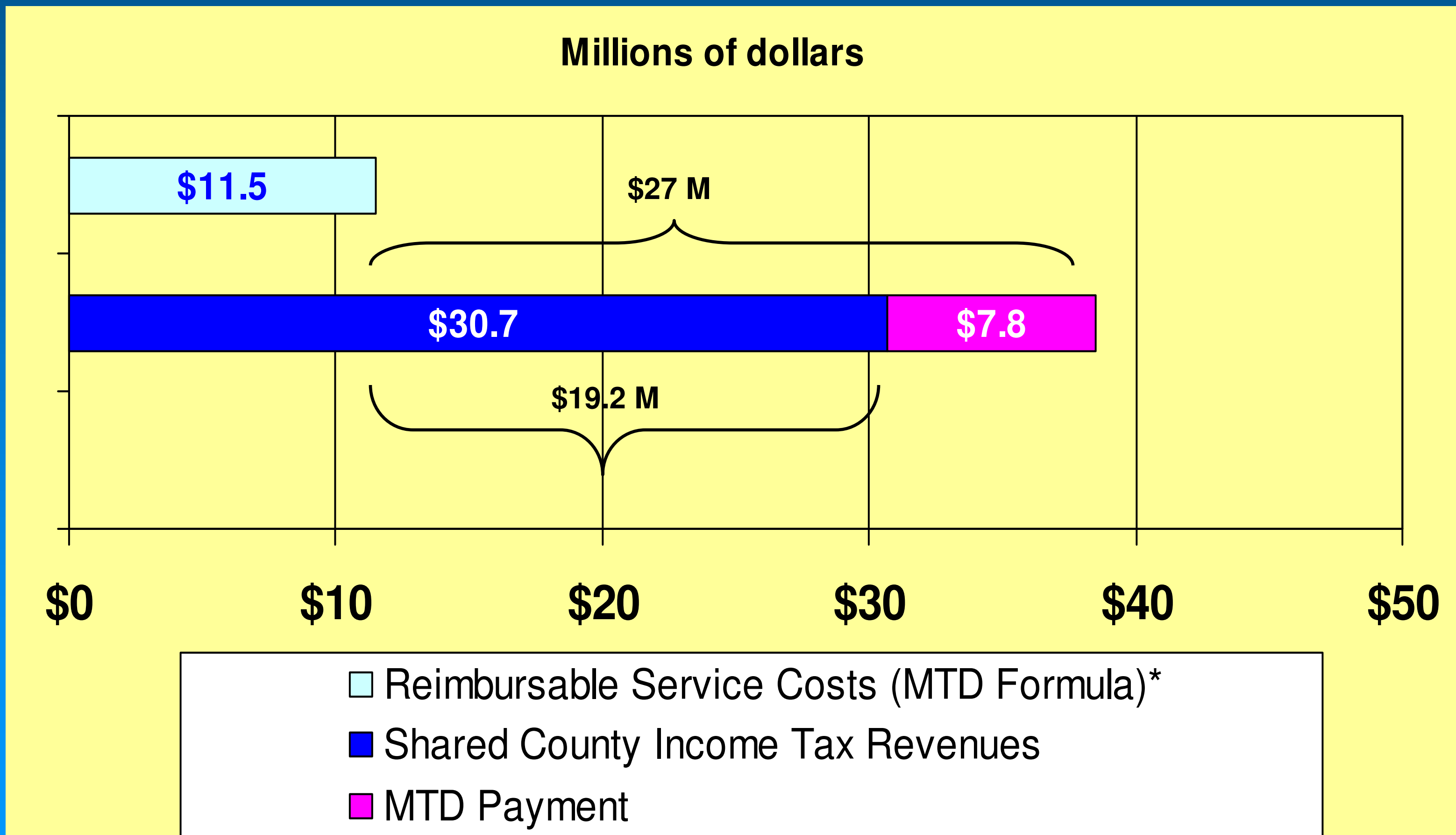
The MTD Legal Framework

- State law mandates a County tax set-off.
- State law leaves key design issues, e.g. tax set-off valuation and payment methods, to local officials.
- County's basis for valuing its tax set-offs is the full cost of net service costs.
- County's payment method, a municipal rebate, returns value to municipal governments.

The State's Service Structure: County/Municipal Expenditures

Service Type	County General Fund	Municipal Operations Funds	Total
County only	$1.8 billion		$1.8 billion
Shared	$585.7 M	$105.5 M	$691.2 M
Reimbursable	$198.4 M	$11.3 M	$210.0 M
Non-Reimbursable	$387.3 M	$94.1 M	$481.4 M
Grand Total	$2.4 billion	$105.5 M	$2.5 billion

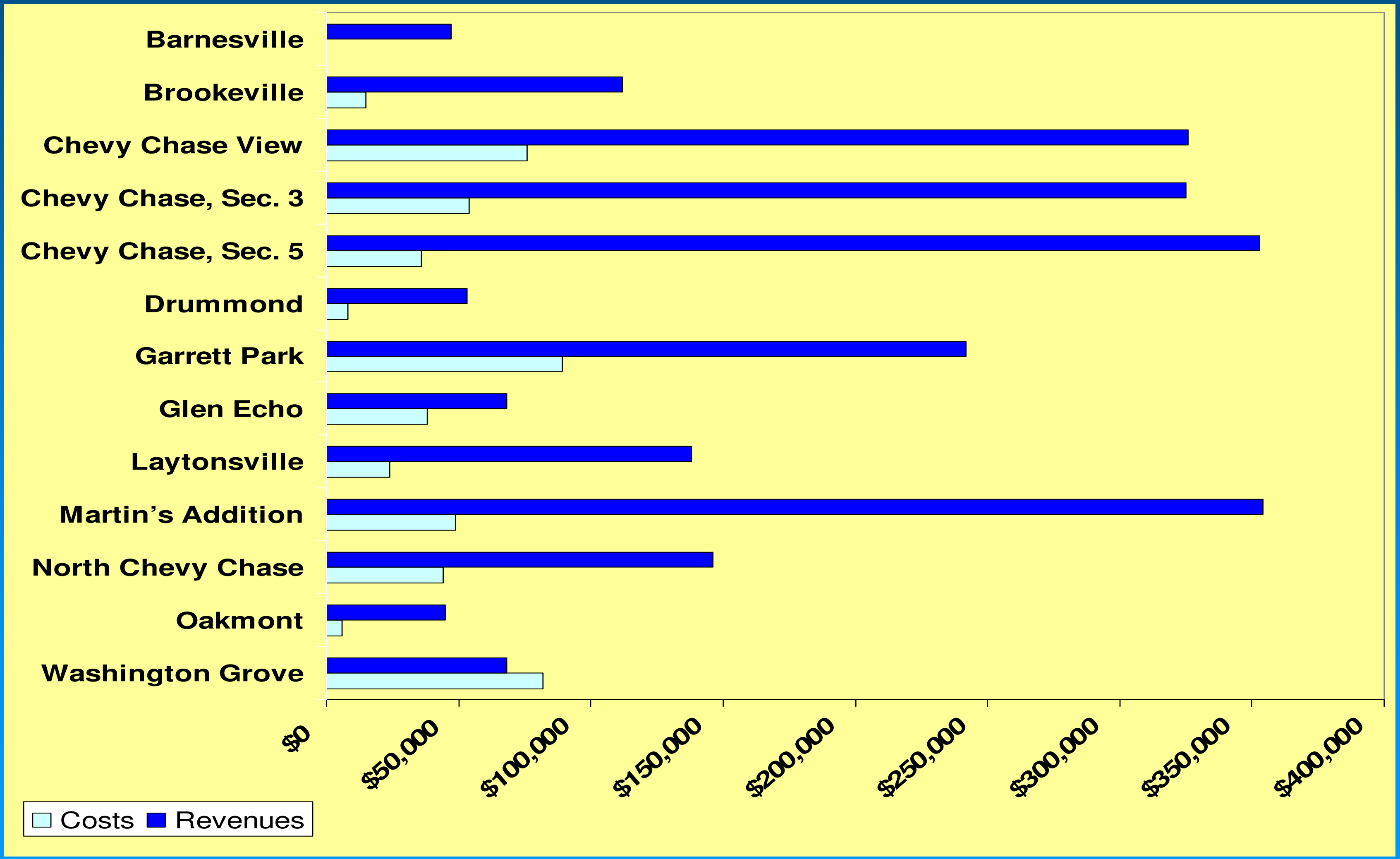
Reimbursable Service Costs (MTD Formula) and MTD Payments + Shared County Income Tax Revenues (All municipalities)



*Total includes park maintenance costs

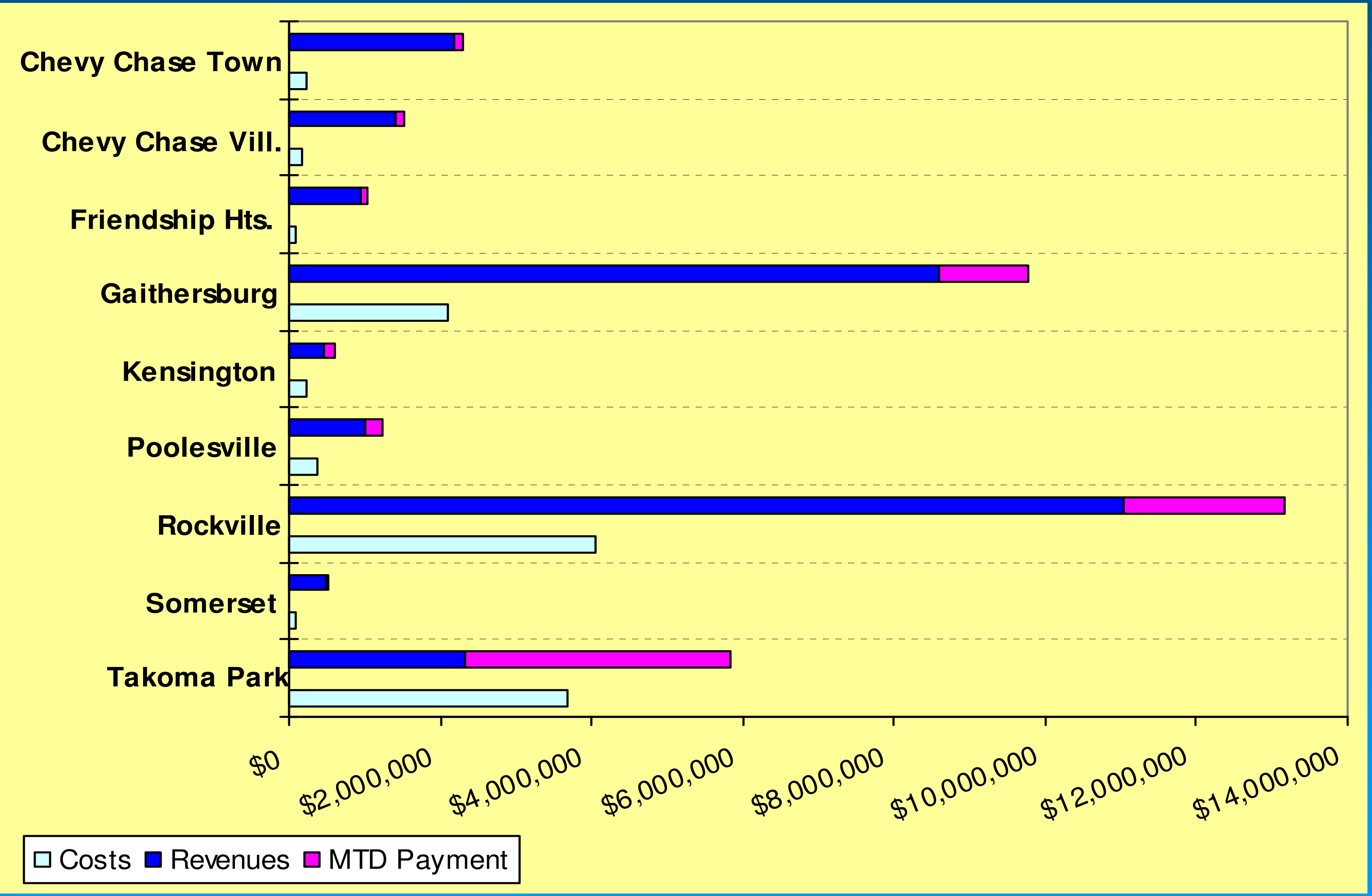
County Shared Income Tax Revenues and Reimbursable Service Costs (100%)

(13 municipalities with Shared County Income Tax Revenues < $400,000)



Shared County Income Revenues + MTD Payments and Reimbursable Service Costs

(9 municipalities with Shared County Income Tax Revenues > $400,000)



B. Montgomery County's MTD Program

- County law and governing documents are confusing
- County's basis for valuing the tax set-off is not clear
- County's formulas are outdated, lack uniformity and their results are ignored
- County's municipal stakeholders perceive program has an inherently political element

C. Other Counties' MTD Programs

- Anne Arundel and Prince George's counties set property tax differentials
- Frederick County's program uses a full cost basis and a cap to value its tax set-off
- Frederick County allows its municipalities to choose a rebate or a tax differential

D. OLO Recommendations

Recommendation #1: Implement revisions to strengthen the fairness, uniformity and sustainability of the County's MTD Program

- Re-establish property tax revenue as the basis for valuing MTD payments
- Institute a uniform approach to cost of service determinations that relies on unit cost factors and readily available data
- Recognize partial service levels of effort and re-instate police patrol service payments
- Implement other revisions to better align the MTD program and the County's fiscal service structure

D. OLO Recommendations

Recommendation #2: Establish and fund a Municipal Grant Program

- Provide grants to close funding gaps between reimbursable service costs (valued at 100%) and shared county income tax revenue
- Provide grants to fund pilot projects or one-time non-recurring expenses
- Cap the program amount and require a municipal match