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

<table>
<thead>
<tr>
<th>Service Type</th>
<th>County General Fund</th>
<th>Municipal Operations Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>County only</td>
<td>$1.8 billion</td>
<td></td>
<td>$1.8 billion</td>
</tr>
<tr>
<td>Shared</td>
<td>$585.7 M</td>
<td>$105.5 M</td>
<td>$691.2 M</td>
</tr>
<tr>
<td>Reimbursable</td>
<td>$198.4 M</td>
<td>$11.3 M</td>
<td>$210.0 M</td>
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<tr>
<td>Non-Reimbursable</td>
<td>$387.3 M</td>
<td>$94.1 M</td>
<td>$481.4 M</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$2.4 billion</td>
<td>$105.5 M</td>
<td>$2.5 billion</td>
</tr>
</tbody>
</table>
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