

Maryland 2007 Special Legislative Session Impacts on Municipal Government

The special legislative session of the Maryland General Assembly, called by the Governor to address the State's \$1.7 billion structural budget deficit, began on October 29 and adjourned early Monday morning, November 19, 2007. This special message is to alert MML's membership to the fiscal impacts that the General Assembly's actions will have on municipal government.

Highway User Revenues

Funding for the \$400 million in new revenues for highway construction and maintenance was structured in such a fashion that local governments will not share in the new moneys. Conversely, action by the General Assembly to deduct the trade-in value of existing vehicles from taxable sales for determining titling taxes will result in a decrease in highway user revenues of about one percent for this current fiscal year and two percent for fiscal year 2009. MML projects that city and town losses may approach \$1 million statewide for fiscal year 2008 and \$2 million for fiscal year 2009.

Local Income Taxes

Over 10 years ago in 1997, the General Assembly enacted legislation to decouple local income tax computations from state income tax liability. Thus, increases in state income tax rates also will not affect municipal income tax receipts. However, action by the General Assembly to increase the income tax personal exemption by \$800 will decrease taxable income on which local income taxes are based. State estimates show roughly a one percent decline in local income tax receipts for this current fiscal year and a two percent decline in fiscal year 2009. MML estimates this will equate to a loss of approximately \$800,000 statewide to municipalities for fiscal year 2008 and \$1.6 million in fiscal year 2009.

Program Open Space

General Assembly action will reduce the local share of Program Open Space (POS) by diverting the greater of \$21 million or 20% of POS funds to operate state parks and forests each year. This will be partially offset by over \$5 million in anticipated additional transfer taxes (the funding source for POS) that will be raised as a result of closure of a loophole to ensure that the transfer of business properties is taxed.