

Wicomico County Revenue Cap

Developed By: The Greater Salisbury Committee

Data Collection and Analysis Provided By: BEACON at Salisbury University

What is the Revenue Cap?

- **Limits the County's revenue from real property taxes**
- The County's revenue can increase by 2% from the previous year or the CPI-U rate
- The max revenue increase is the minimum between CPI-U and 2%
- When real estate values decrease, the property tax rate can increase. When real estate values increase, the property tax rate can decrease
- The objective of the revenue cap is to limit wasteful government spending and eliminate unexpected large tax increases

Revenue Cap Challenges

- The cap only works in an environment where inflation is 2% or less
- The language of the cap makes County revenues fall behind the total allowable revenue.
- The CPI-U rate is not an accurate measure of the rate of change in local government expenditures.
- The revenue cap is not designed to accommodate unfunded state or federal mandates
- The revenue cap does not have an emergency contingency provision to allow elected officials to address extraordinary budgetary demands in cases of disasters or major economic disruptions

Effects on Revenue

- **The County has been unable to collect and use over \$15 million dollars from 2006-2016**
- CPI-U has been higher than 2% over the last 10 years
- Should this continue to occur, the County will continue to lose out on millions of dollars at a faster rate on a year-to-year basis.
- 48% of the County's revenue is from local property taxes
- The County's revenue is used to fund public services (education, public health and safety, facilities, etc.)

Effects on Taxes

- **Due to previous tax increases below the cap, the current taxes are below prior levels when adjusted for inflation**
- If the current tax rate is increased by 6%, the owner of a median value home in the County (\$172,400) would only pay \$99 more that year in property taxes
- Compare this to having a 16oz coffee from Starbucks 3x per week:
 - 1 year costs = \$612
- The increases in property taxes collected could be used to improve roads, educational services, buildings, and other public services used by residents
- Increases in property taxes can also provide cushion for the County against recessions that will limit public services to residents

Options Moving Forward

- Change the language of the cap to be able to take the higher of CPI-U or 2% each year
- Using a different inflation index (S&L IPD) instead of the CPI-U index
- Implement a safety valve which allows flexibility to cap limits in case of drastic economic changes. Typically requires a majority vote either by the public or pre-determined board.
- Using homestead exemptions (save on taxes on a person's home) or circuit breaker programs (benefits to taxpayers, with benefits increasing as incomes decline)
- Implement a sunset/reset clause which will automatically terminate the cap after a fixed time period unless it is extended.
- Elimination of the revenue cap?