Wicomico County Revenue Cap

Developed By: The Greater Salisbury Committee

Data Collection and Analysis Provided By: BEACON at Salisbury University

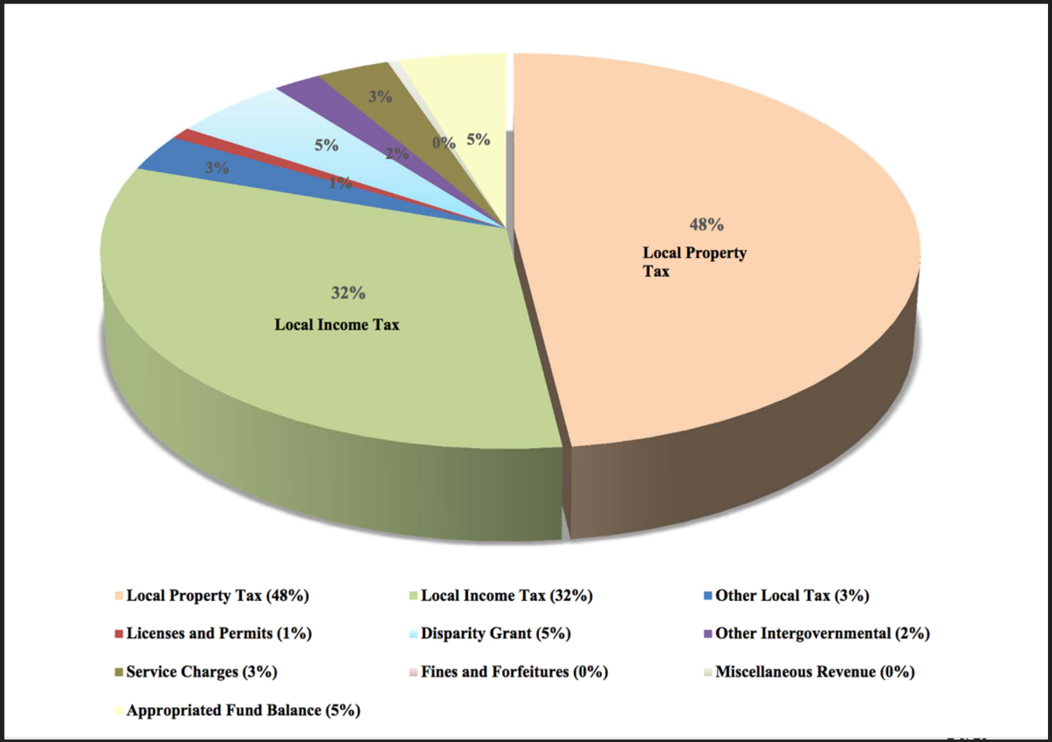
Overview

- The Wicomico County revenue cap was amended to the County Charter in November, 2000. In the years leading up to the revenue cap, the County Council maintained a record of no increases in the property tax rate
- While this long period of no property tax increases was very popular with the electorate, the county was deferring a number of needed expenditures including inflation and market adjustments for county employee compensation.
- In order to maintain funding for education, maintenance of infrastructure, and other services taxpayers demand, the County Council implemented a record increase of 46 cents in the property tax
  - This substantial increase in the property tax was a direct result of the lack of increases leading up to this point.
  - After years of no tax increases a sudden 24% jump in the property tax rate resulted in a taxpayer revolt
  - The revenue cap was voted into the County Charter on July 1st, 2001 and remains in effect today

Features of the Revenue Cap

- Limits the County’s revenue from real property taxes to no more than 2% from the previous year or the CPI-U inflation rate (whichever is less)
- The Property Tax Rate can still change from year to year (Revenue cap is NOT a property tax rate cap)
- During economic downturns in the economy (when real estate values fall) the property tax rate can increase as long as the total new revenue stays within the cap’s limits
- When the economy is growing (when real estate values increase) the rate can decrease

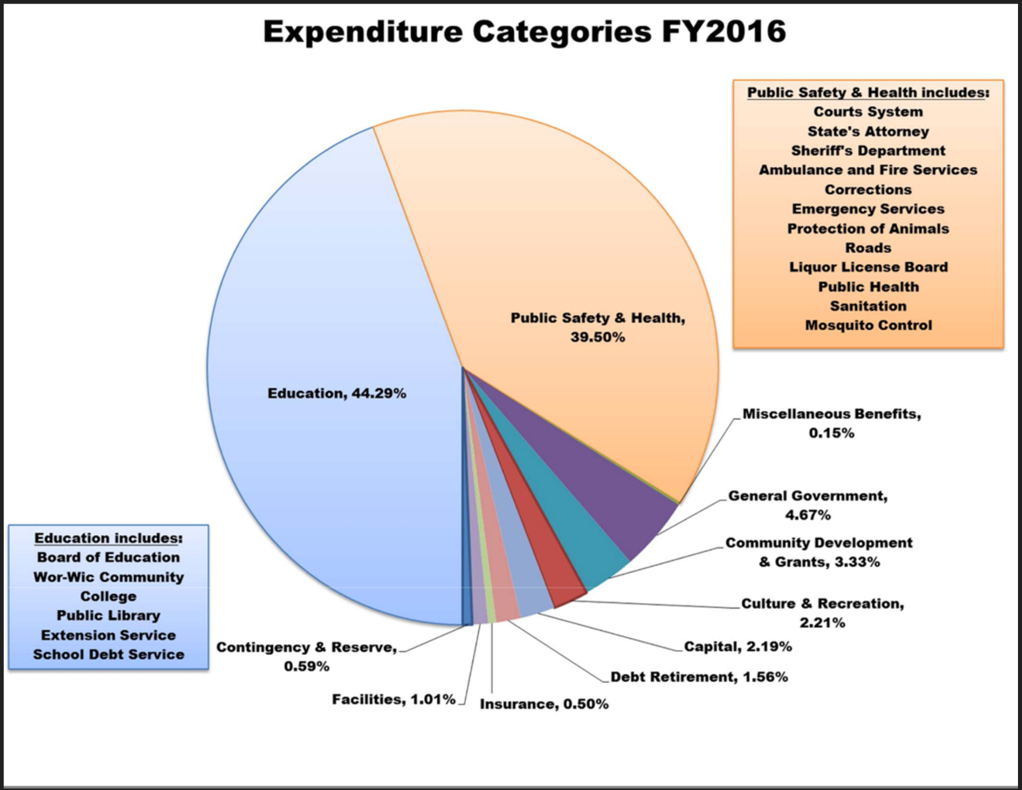
Wicomico County Sources of Revenue



- The county relies largely on local property taxes as a source of revenue
- Increases in the amount of revenue collected from property taxes however is limited by the revenue cap

Wicomico County Budget, 2016

Uses of Revenue- Budget

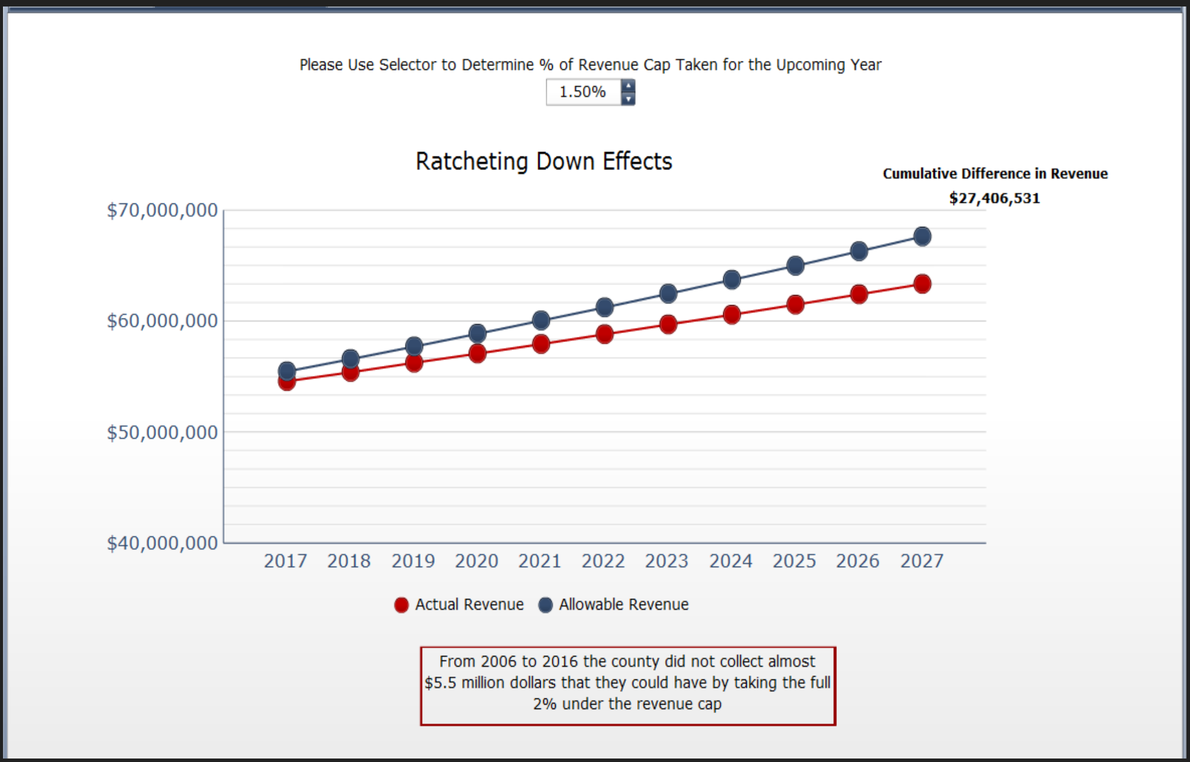


- Since the almost half of the County's budget comes from property taxes collected, this revenue is used to fund a lot of public services including:
  - Education
  - Public Health
  - Facilities in the county
  - Recreation
  - Economic and Community Development
  - Infrastructure
  - Maintenance of roads
  - Public Safety

Revenue Cap Challenges

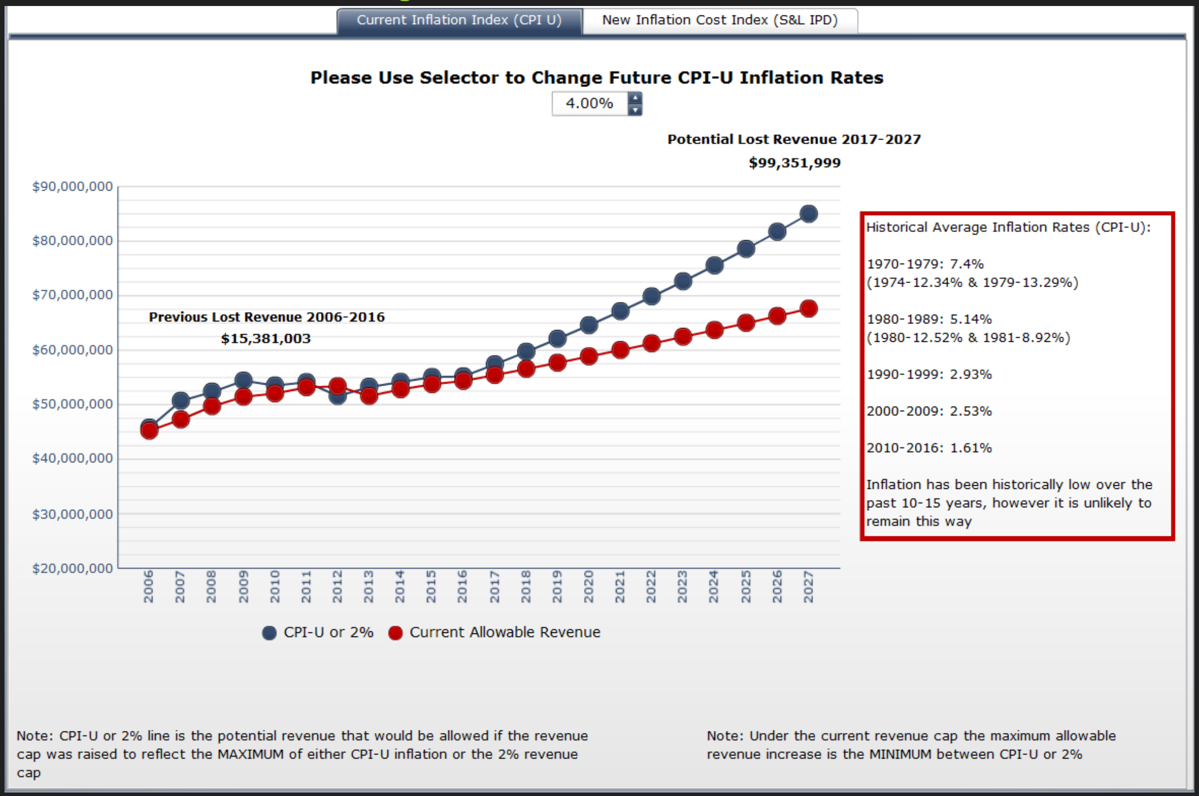
- The objective of the revenue cap is to limit wasteful government spending and eliminate unexpected large tax increases. There are however, some unintended consequences of the current format of Wicomico County's revenue cap.
  - The cap only works in an environment where inflation is 2% or less
  - The language of the cap creates a ratchet down effect when 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

Ratcheting Down Effects



- In the past the County has taken less than the full allowable revenue under the cap. (e.g. in 2009 the county only allowed a revenue increase of 0.1% instead of the full 2%)
- Not taking the fully allowable revenue has led to over $5 million being forever left on the table. This has a further detrimental effect since all future increases will be limited by this lower base figure.
- This ratcheting effect could lead to the County losing out on over $25 million dollars in the next 10 years

Lost Revenue

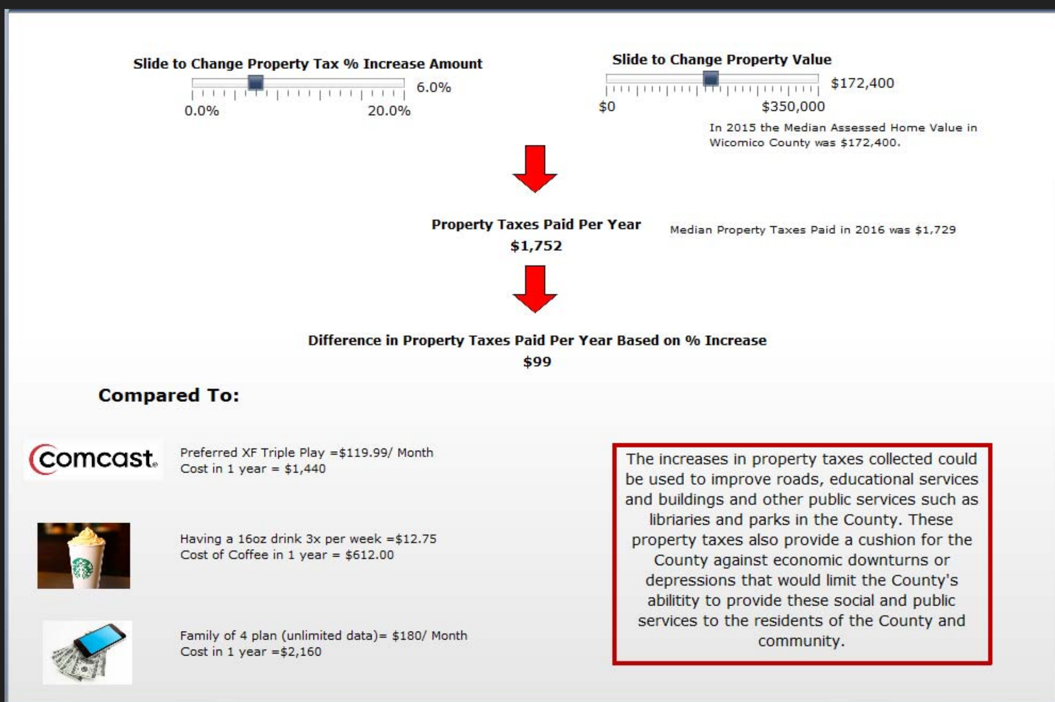


- The county has also been unable to collect and use over $15 million dollars from 2006-2016
- This loss is due to the fact that inflation has been higher than 2% revenue cap during this time period.
- Should inflation increase to historical averages, the County will be unable to collect millions of dollars in revenue in that year; and the ratcheting effect will compound the loss in revenue in future years.

What Could Happen

- During a period of high inflation or increases in County expenditures due to growth, unfunded mandates or unforeseen emergencies, there is no option to adequately adjust the budget.
- Similarly, the County would have no cushion during a major economic downturn which is when reliance on public and social services in the county would increase.

Examining Changes in Property Taxes



- Due to the ratcheting effect of previous tax increases below the cap, the current taxes are below prior levels when adjusted for inflation.
- If the current tax rate per $100 of assessable value (.9587) is increased by 6%, the owner of a median assessed value home ($172,400) would only pay $99 more that year in property taxes, which is below prior taxes when adjusted for inflation

Protecting Residents from Large Rate Increases

Homestead Exemptions:

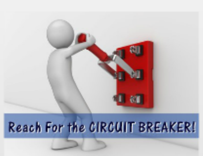
These are property tax exemptions that are means to save on taxes on a person's home. These exemptions remove part of the value of your property from taxation and lowers a person's taxes. These exemptions are typically paid for by the state, therefore local services are not threatened due to this exemption. The exemption reductions in many cases represent a much greater proportion of the value of inexpensive homes which are more likely to be owned by working to middle class families. This type of exemption is therefore touted as a way to provide relief to those who may need it the most (elderly, those who make moderate incomes, or those who have temporarily lost income due to illness or unemployment).

Circuit Breaker Programs:

This type of program is set up to provide benefits directly to taxpayers, with benefits increasing as claimant's incomes decline. This program is designed to be a policy mechanism intended to stop property taxes from exceeding a claimant's ability to pay and protecting the taxpayers from property tax overload.Circuit breaker programs are also theoretically an effective way to address increases in property taxes and keep track of how these increases are affecting families. For example, a family that didn't initially qualify for the circuit breaker program can become eligible if their property taxes increase but their income did not.

Safety Valve Implementation:

In some cases, revenue cap limits can be increased or changed through a referendum or by passing overrides, both of which typically require a majority vote, either by the public or a pre-determined board. Overrides in turn can be a short term solution and do allow for some flexibility in case of a drastic change in price, the economy or an unforeseen occurrence that affects the locality.



- Some of the unintended consequences of the current format of the revenue cap could be mitigated through modest changes to the policy, such as those listed in this slide.
- Such changes would still allow the County to protect residents from large increases in property taxes

What Could We Be Doing?

- Modest changes to the Revenue Cap policy could allow the County to:
  - Improve more roads, bridges and walkways in the county
  - Improve more schools and educational services
  - Reduce the amount of deferred expenditures
  - Increase funding to public safety
  - Increase funding to health and public services
  - Increase funding to recreation, parks and libraries
  - Increase funding to projects geared towards improving quality of life and retaining young professionals
  - Fund more economic development projects
  - Save money for disasters, increases in inflation, growth in population, unfunded State mandates or economic downturns
  - CHANGE INCREASE WORDING / BULLETS AFTER PUBLIC SAFETY

Enhancements Moving Forward

- Implementation of a safety valve feature
- Using homestead exemptions or circuit breaker programs
- Changing 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
- Sunset/Reset Clause