

Prepared for



Wicomico County
Real Property Tax Differential Study
for
Town of Delmar
City of Fruitland
and
City of Salisbury

Prepared by



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A. EXECUTIVE SUMMARY

On an annual basis, the Cities of Salisbury and Fruitland and the Town of Delmar meet with the Wicomico County Commissioners for the purpose of requesting a tax differential for County real property taxes. The municipal governments have based their requests for a tax differential or tax rebate on the rationale that certain County services and programs were neither available nor provided to most municipal residents by the County because their respective municipal governments provided most/all of those same or comparable services and programs to their residents. Historically, Wicomico County has declined to grant any requests from municipal governments for a tax setoff (tax differential or tax rebate). The Municipal & Financial Services Group (MFSG) was engaged jointly by Wicomico County and the Cities of Salisbury and Fruitland and the Town of Delmar to undertake a study to identify and quantify any potential County expenditures that qualify for inclusion in a real property tax differential for the Cities of Salisbury and Fruitland and the Town of Delmar and develop alternative methods to phase in the calculated tax differential. This report discusses the methodology of the tax differential study and documents MFSG's findings and recommendations.

Using Wicomico County's adopted FY 2010 budget as a starting point, MFSG categorized County services into two classes: (1) those programs and services that are available and provided to Salisbury, Fruitland and Delmar residents; and (2) those services and programs that are not available or provided to Salisbury, Fruitland and Delmar residents. Additionally, MFSG documented any programs or services that were partially available or provided to Salisbury, Fruitland and Delmar residents and documented the basis for allocating the related budgeted expenses. MFSG also identified and evaluated those County services or programs that primarily provide support to specifically identified County services and programs that are/may be available to Salisbury, Fruitland and Delmar residents and then allocated those "overhead costs" proportionally. Based on the assessed valuation of real property tax in the Cities of Salisbury and Fruitland, the Town of Delmar and the remainder of Wicomico County, MFSG calculated an alternative "adjusted" property tax rate applicable to the entire County as well as a supplemental "reduced" tax rate (referred to as a tax differential) for those portions of Wicomico County exclusive of Salisbury, Fruitland and Delmar.

It must be emphatically stressed, however, that these "adjusted" or "reduced" property tax rates would be applicable only if the County Council's designation (via its annual Budget Resolution) of property tax revenues as being applied to fund the operating budget of and debt service related to the Board of Education is deemed to lack legal basis. It is clearly the intent of the County Council to designate this specific use of property tax revenues, which would make the whole issue of a tax differential moot, since all municipalities in the County rely on the County school system for K-12 education, and the County expends an amount greater than the total County property tax revenues for the Board of Education's operating budget and debt service.

We cannot locate a formal legal opinion as to the validity of the County's designation of its property tax revenues for the Board of Education and were told informally that if we obtained such an opinion, we would likely also receive three opinions reaching a different conclusion. There is nothing in State law that specifically says the County may take the action specified in its Budget Resolution, nor is there any specific statutory language prohibiting such designation. We are not attorneys and cannot opine on the legality of this action. This issue can be resolved in

one of two ways: (1) by litigation, from which neither the County nor the three municipalities would benefit, or (2) by a “final” and explicit political decision on the part of the County Council. Attempting to resolve this issue via the use of accounting, or finance or management analysis will never satisfy the parties involved in this discussion.

MFSG’s analysis indicates that for FY 2010, Wicomico County will need to collect \$52,080,078 in real property tax revenue. Our analysis indicates that, if the County’s designation of property tax revenues as being dedicated to the Board of Education were not applied, the City of Salisbury should be asked to contribute towards \$46,684,501 (89.6% of the total) of the total revenue requirement, the City of Fruitland should contribute towards \$48,188,172 (92.5%), and the Town of Delmar should contribute towards \$48,026,426 (92.2%). The difference between the total revenue required to be collected from property taxes less the respective amount that each participant should help fund represents the cost of duplicated services/programs for each participant. The tax differential for each participant is calculated from these amounts and is shown in the table below:

	Revenue Requirement	Percent of Total	Tax Rate*	Differential
Countywide	\$52,080,078	100.0%	\$0.796	\$0.000
Salisbury	\$46,684,501	89.6%	\$0.714	\$0.082
Fruitland	\$48,188,172	92.5%	\$0.737	\$0.060
Delmar	\$48,026,426	92.2%	\$0.734	\$0.062

**Per \$100 of assessable real property*

In summary:

- If a uniform Countywide property tax rate is applied for FY2010, it would be \$0.768 or
- If a tax differential were granted, it would result in the following tax rates:
 - Wicomico County, other than Salisbury, Fruitland and Delmar – \$0.796
 - City of Salisbury – \$0.714
 - City of Fruitland – \$0.737
 - Town of Delmar – \$0.734

Our analysis indicates that in order to ensure that real property tax revenues are sufficient to cover County FY 2010 operating expenses, the current County real property tax rate would need to be increased by \$0.009 from \$0.759 to \$0.768. If a tax differential were granted, the current County real property tax rate would need to be increased by \$0.037 from \$0.759 to \$0.796, requiring the County to forego \$1,213,984 in tax revenues from the three municipalities. The County’s real property tax rate would then be \$0.714 in Salisbury, \$0.737 in Fruitland and \$0.734 in Delmar. MFSG is neither recommending for nor against such a differential but has estimated a differential amount that could be justified if the County’s designation of property tax revenues for use by the Board of Education were not applied..