

BUDGET ISSUES

This section of the budget provides the global context underlying the Commission's FY12 Proposed Budget. Both revenue and expenditure assumptions and major issues are discussed here.

REVENUES

The Commission's revenue outlook continues to weaken significantly in FY12, largely attributable to a further depression of the housing market and its lagging impact on the Commission's taxable base. The latest projections provided by the Maryland State Department of Assessments and Taxation (SDAT), released in November, revised the County's FY12 real assessable base projections down significantly from a 0.5% increase (projected by SDAT in March 2010) to a 7.7% decrease from the FY11 adopted budget. The assessable base in FY13 and FY14 will likely experience a decrease as well, before a gradual recovery can be expected, as a result of the three-year phase-in of reassessment growth required under Maryland law. Since the Commission generates over 90% of its General Fund revenues through property tax collections, the Commission must manage its resources carefully and examine various options to address a potentially significant gap between resources and demands in the foreseeable future.

Property Tax Revenue

Total proposed tax revenues in the four tax-supported funds are expected to decrease by \$17.6 million in FY12 or 6.9% from the FY 11 budget to \$236.1 million with real property value decreasing by 7.7% and personal property value increasing by 1.0%. Our projection was developed by using the latest estimates from SDAT and also factoring in the latest home sales information. Median home sale prices in the County have been declining for four years, and are predicted to decrease at a lower rate and potentially stabilize by 2011. Home sales volume, however, has picked up since 2009. The SDAT will update its assessable base projections at the end of March. Based on those revised projections, we will work with the County government to modify the budgeted property tax revenues if warranted.

The Commission is proposing to maintain its overall real property tax rate at 27.90 cents per \$100 of assessed value and its overall personal property tax rate at 69.75 cents per \$100 of assessed value. However, the proposed budget assumes a tax rate shift of 0.13 cents for real property and 0.32 cents for personal property from the Advanced Land Acquisition Fund (ALA) to the Recreation Fund. This shift is necessary because as of the end of FY11, all debt service in the ALA Fund will have been retired, and there will be \$8-9 million in reserves available for land purchases (the ALA Fund is used to buy land for future governmental purposes such as schools, libraries and roads). If at some future date the reserves are exhausted and bonds must be sold in the ALA Fund, then some level of tax rate will need to be shifted back to the ALA Fund. Also, due to the increasing structural deficits in the Administration and Recreation Funds, a tax rate shift from the Park Fund must occur no later than FY13, or the Commission will have to take significant reductions in the two funds in order to avoid a deficit.

Assessable base growth has been cyclical, characterized by boom years with double-digit growth followed by years of stagnation. The Commission responds with caution in projecting revenues and by building and maintaining adequate reserves in good years to ensure the Commission is able to successfully manage through difficult economic environments. However, various spending pressures, including one-time transfers of \$60 million to the County Government during FY10-FY11, a significant expansion of the Capital Improvement Program (CIP), a significant increase of project charges paid to the County Government and other entities, combined with cost increases associated with salary adjustments and fringe benefits, has increased the use of fund reserves recently and created a larger structural deficit.

Additionally, in April 2010, the Maryland State Legislature enacted and the Governor signed into law Senate Bill 683 which expanded the application of the Homestead Tax Credit to include the Commission. Since the early 1990's the State, counties and municipalities have had property tax revenue growth restrained by a homestead property tax credit. The annual growth of the assessed value of individual residential properties for taxation purposes cannot exceed 10%. Counties and municipalities may limit growth to a lower percentage. Previously, the law did not address special district governments like the
