

Prepared for



Town of Ocean City

Tax Differential Study

Prepared by



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November 28, 2007

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A. EXECUTIVE SUMMARY

On an annual basis the Town of Ocean City meets with the Worcester County Commissioners for the purpose of requesting a tax differential of County real estate taxes. Ocean City has based its requests for a tax differential on the rationale that a number of important County services and programs such as planning and zoning, police, fire and rescue, animal control, emergency communications, highways and streets, parks and recreation and economic development were not available nor provided to Ocean City residents by the County because Ocean City provided those same or comparable services and programs to its residents. Ocean City's requests are supported by several studies prepared by the Institute for Governmental Services (IGS) that found duplicated services in the areas mentioned above. Worcester County has been reluctant to grant the City's requested tax differential and has instead responded with a variety of grants. However, these grants, while appreciated, only offset a small fraction of what the tax differential should be, based on the fact that Ocean City constitutes more than 60% of the assessable real property tax base in Worcester County yet receives a disproportionately small share of County services and programs.

The Municipal & Financial Services Group (MFSG) was engaged by the Town of Ocean City to undertake a study to identify and quantify County expenditures that qualify for inclusion in a real property tax differential for Ocean City and to 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 Worcester County's approved FY 08 budget as a starting point, MFSG categorized County services into two classes: those programs and services that are available and provided to Ocean City residents and those services and programs that are not available or provided to Ocean City residents. MFSG identified the costs related to each program and service. For County programs and services that rely on funding sources other than (or in addition to) property tax revenues, MFSG also documented those offsetting revenues. Additionally, MFSG documented any programs or services that were partially available or provided to Ocean City residents and documented the basis for allocating the budgeted expenses related. MFSG analyzed those County services or programs that primarily provide support to identified County services and programs that are/may be available to Ocean City residents and allocated those "overhead costs" appropriately.

MFSG identified several County services or programs that are not offered or provided to Ocean City residents. These include services and programs offered by Worcester County including the Tourism Department, Department of Public Works, Department of Recreation and Parks, Department of Emergency Services, Fire Marshal's Office, Department of Comprehensive Planning, approximately 90% of the Department of Development Review and Permitting, approximately 80% of the Sheriff's Office, 50% of the Department of Environmental Programs and 5% of Debt Service. These services and programs are further defined below.

Based on the assessed valuation of real property tax in Ocean City and in the remainder of Worcester County, MFSG calculated the "real" property tax rate for the entire County and a supplemental tax rate for those portions of Worcester County exclusive of Ocean City.

MFSG's analysis indicates that for FY 2008, Worcester County will need to collect \$118,816,581 in property tax revenue; the Worcester County budget has \$118,816,851 as *Full Year Real Property Tax* under the Revenues in the Treasurer's Department – a difference of \$270 due to a summation error in the calculation of Treasurer Revenues in the County budget. Our analysis indicates that \$104,921,971 of the property tax collected should be paid by all County residents including those in Ocean City, but that \$13,894,610 in property taxes should not be paid by Ocean City tax payers. This \$13,894,610 is therefore the expense amount that calculates the tax differential of \$0.22, which adjusts the \$0.70 County-wide property tax rate to \$0.64 for Ocean City and \$0.86 for the remainder of Worcester County.

B. BASIS FOR THE STUDY

For a number of years, the Town of Ocean City has met with the Worcester County Commissioners for the purpose of requesting a tax differential of County real property taxes. These requests were supported by various studies prepared by the Institute for Governmental Services (IGS) that found duplicated services in planning and zoning, police, fire and rescue, animal control, emergency communications, highways and streets, parks and recreation and economic development. Worcester County has been reluctant to grant the City's requested tax differential and has instead responded with a variety of grants. However these grants, while appreciated by Ocean City, equate to only a small fraction of the amount the tax differential should be, because Ocean City constitutes more than 60% of the assessable real property tax base for all of Worcester County yet receives a disproportionately small share of County services and programs.

In October 2007, the Town of Ocean City entered into a contract with the Municipal & Financial Services Group with the objectives to:

1. Identify and quantify County expenditures that qualify for inclusion in a real property tax differential for Ocean City;
2. Develop alternative methods to phase in the calculated tax differential, including an assessment of the annual impact on Worcester County's budget; and
3. Present the results of the analysis to the Ocean City Council and other bodies or agencies as directed by the Town of Ocean City.

1. Tax Differential Background

Property tax set-offs are intended to compensate for double taxation of municipal taxpayers occurring when both municipal and county property taxes are levied to fund similar or identical services. As a result, a number of Maryland counties compensate municipal tax payers with property tax set-offs through a tax rate differential or a tax rebate. A tax rate differential results in a lower county property tax rate within the boundaries of a municipality, whereas a tax rate rebate is a direct payment to a municipality for providing the services or programs. The major governmental services performed by municipalities that may result in tax set-offs include police protection, highways and street maintenance, sanitation and waste collection, planning and zoning services and recreation and parks services.

Section 6-305 of the Tax-Property Article of the Annotated Code of Maryland mandates that **Allegany, Anne Arundel, Baltimore, Garrett, Harford, Howard, Montgomery and Prince George's Counties** meet annually with the governing bodies of municipal corporations to discuss the property tax rate to be set for assessments of property in the municipal corporations. If it is demonstrated that a municipal corporation performs services or programs in lieu of similar county services or programs, the governing body of the county **shall impose** the county property tax on assessments of property in the municipal corporation at a rate that is **less than the general county property tax rate**.

Section 6-306 of the State Statute governs the procedure for the setting of a tax differential in the **other Maryland counties**. The governing bodies of the counties are required to meet annually with the governing bodies of the municipal corporations to discuss the property tax rate to be set for assessments of property in the municipal corporation. If it is demonstrated that the municipal corporation performs services or programs in lieu of similar county services, the county **may establish** a county property tax rate for property in the municipal corporation that is **lower than the general county property tax rate**.

Alternatively, both of the sections identified above provide the counties with the option of making a payment to the municipal corporation to aid the municipal corporation in funding municipal services and programs that are similar to county services or programs. This is generally referred to as a tax rebate.

Subsections (d) and (e) of Sections 6-305 and 6-306 of the Tax-Property Article define the procedures for determining the county property tax rate within a municipal corporation. The provisions are as follows:

(d) *Setting county rate for Municipal Corporation.* In determining the county property tax rate to be set for assessments of property in a municipal corporation, the governing body of the county shall consider:

- (1) The services and programs that are performed by the municipal corporation instead of similar county services and programs; and
- (2) The extent that the similar services and programs are funded by property tax revenues.

(e) *Rate need not be uniform.* The county property tax rate for assessments of property located in a municipal corporation is not required to be:

- (1) The same as the rate for property located in other municipal corporations in the county; or
- (2) The same as the rate set in a prior year.

A county and one or more municipal corporations may enter into an agreement setting different terms for negotiations, calculations or approval of a tax set-off than are set out under Sections 6-305 and 6-306.

2. Tax Differentials in Maryland

Seventeen of the 23 counties in Maryland had property tax set-offs for municipalities within their respective jurisdictions in Fiscal Year 2006. Of the six remaining counties, Baltimore and Howard Counties have no municipalities, **while Queen Anne's, Somerset, Wicomico and Worcester counties choose not to establish tax set-offs**. Seven counties (Allegany, Anne Arundel, Calvert, Caroline, Charles, Garrett and Talbot) provided tax rate differentials totaling

\$22.7 million for the municipalities in their jurisdictions. Eight counties (Carroll, Cecil, Dorchester, Frederick, Kent, Montgomery, St. Mary’s and Washington) returned rebates to the municipalities totaling \$16.9 million. Prince George’s and Harford Counties provided both tax rebates and tax rate differentials to its municipalities totaling \$14.3 million and \$5.6 million, respectively.

There are 156 municipalities in Maryland. Based on July 2005 population estimates, approximately 15 percent of the State’s residents live within municipalities. However on the Eastern Shore and in Western Maryland, there are nine Counties that have over 30 percent of their residents living within municipalities. Worcester County has 34.9 percent of its population residing within the municipalities of Ocean City, Pocomoke City, Berlin and Snow Hill. Municipalities generally provide a more limited array of public services than Counties. Public works and public safety are the two largest functions and expenditures of municipal governments, comprising 63 percent of total municipal expenditures in FY 04. As shown in Exhibit 1, municipalities accounted for approximately four percent of total local government expenditures. In five Counties, municipal governments accounted for over 15 percent of local government expenditures.

Exhibit 1 - Local Government Expenditures FY 04

	Expenditures (in millions)	Percent of Total
County Level	\$18,794.6	95.6%
Municipal Level	860.6	4.4%
Total	\$19,655.2	100.0%
Municipal Level		
Public Works	\$367.1	42.7%
Public Safety	174.0	20.2
General Government	108.1	12.6
Parks and Recreation	85.8	10.0
Community Development	15.6	1.8
Economic Development	34.0	3.9
Miscellaneous	28.1	3.3
Debt Service	47.9	5.6
Total	\$860.6	100.0%

Source: Department of Legislative Services

3. Worcester County / Ocean City Assessable Base Comparisons

The level of property tax revenue that Ocean City contributes to Worcester County as a result of the City’s very large assessable base is unique in Maryland. For FY 2007/2008, Worcester County’s adopted operating budget reflects \$175,607,743 in revenues and expenditures. Worcester County applies a property tax rate of \$0.70 (2nd lowest of any County in Maryland) on the unincorporated and incorporated areas of the County. Exhibit 2 below shows Worcester County’s property tax rate in relation to other Maryland Counties.

Exhibit 2 – FY 07 County Tax Rates

County	Property Tax Rates (non-municipal)	Income Tax Rates CY 07	Recordation Tax	Transfer Tax	Hotel/ Motel Tax	Adm & Amuse Tax
Allegany	0.983	2.93%	\$ 3.00	0.5%	8.0%	7.5%
Anne Arundel	0.918	2.56%	\$ 3.50	1.0%	7.0%	10.0%
Baltimore City	2.288	3.05%	\$ 5.00	1.5%	7.5%	10.0%
Baltimore County	1.100	2.83%	\$ 2.50	1.5%	10.0%	10.0%
Calvert	0.892	2.80%	\$ 5.00	-	5.0%	1.0%
Caroline	0.870	2.63%	\$ 3.30	-		
Carroll	1.048	3.05%	\$ 5.00	-	5.0%	10.0%
Cecil	0.960	2.80%	\$ 4.10	\$10/deed	5.0%	6.0%
Charles	1.026	2.90%	\$ 5.00	-	5.0%	10.0%
Dorchester	0.896	2.62%	\$ 5.00	0.8%	5.0%	1.0%
Frederick	0.936	2.96%	\$ 5.00	-	3.0%	0.5 - 5%
Garrett	1.000	2.65%	\$ 3.50	1.0%	5.0%	4.5%
Harford	1.082	3.06%	\$ 3.30	1.0%		1-10%
Howard	1.014	3.20%	\$ 2.50	1.0%	5.0%	7.5%
Kent	0.972	2.85%	\$ 3.30	0.5%	5.0%	4.5%
Montgomery	0.812	3.20%	\$ 3.45	0.25 - 6%	7.0%	7.0%
Prince George's	0.960	3.10%	\$ 2.20	1.4%	5.0%	10.0%
Queen Anne's	0.800	2.85%	\$ 3.30	0.5%	5.0%	5.0%
St. Mary's	0.857	3.00%	\$ 4.00	1.0%	5.0%	2.0%
Somerset	0.940	3.15%	\$ 3.30	-	5.0%	4.0%
Talbot	0.500	2.25%	\$ 3.30	1.0%	4.0%	5.0%
Washington	0.948	2.80%	\$ 3.80	0.3%	6.0%	3-5%
Wicomico	0.942	3.10%	\$ 3.50	-	6.0%	6.0%
Worcester	0.700	1.25%	\$ 3.30	0.5%	4.0%	3.0%

Source: Maryland Association of Counties, Budget and Tax Rate Survey, November 2006

The County identified \$118,816,851 (FY 08) in property tax revenue, accounting for 67.6 percent of total local estimated revenue to be collected. Ocean City contributed \$71,103,966 (FY 07) in local property tax to Worcester County accounting for approximately 60 percent of total local county property tax collected, or 40 percent of total County revenue to be collected.

According to data from the State of Maryland tax tape per the Town of Ocean City's Finance Department, in FY 07 Worcester County had an assessable base of \$16,418,513,719. Worcester County's assessable base, when compared to information contained in the July 1, 2007 State Department of Assessments and Taxation AIMS 2: Real Property Assessable Base Report, was larger than the assessable base of several Eastern Shore Counties including Wicomico (\$5,836,240,537), Somerset (\$1,325,974,585), Dorchester (\$2,663,355,206), Kent (\$2,493,486,587) and Caroline Counties' (\$2,360,286,593) combined assessable base of \$14,679,343,510 and similar in size to Carroll County's (\$17,292,680,460) and Charles County's (\$14,859,070,582) assessable bases.

Additionally, Worcester County's population of 49,662 was significantly smaller than the combined populations of Wicomico, Somerset, Dorchester, Kent and Caroline Counties

(203,674), Carroll County (176,163) and Charles County (146,886). Based on the sources listed above, the Town of Ocean City’s assessable base (provided by the Town of Ocean City’s Finance Department) of \$10,157,709,442 is significantly larger than the size of the assessable base of the unincorporated portions of Worcester County (\$5,623,155,548) and comparable in size to Calvert County (\$10,262,519,729) and Washington County (\$10,262,519,729).

Worcester County’s relatively large assessable base has had a tremendous impact on the County’s ability and willingness to tax itself for the services it provides for its citizens and its reluctance to consider a tax differential for the Town of Ocean City. To illustrate this point, the Department of Legislative Services calculates two key indices: (1) tax capacity, which reflects the potential tax base of a local government; and (2) tax effort, which measures the extent to which the local tax base is actually taxed. Exhibit 3 below shows the counties with the highest and lowest tax capacity as well as those with the highest and lowest tax effort.

Exhibit 3 - Counties with the Highest and Lowest Tax Capacity and Effort FY 01 – FY 03

<u>Highest Tax Capacity</u>	<u>Lowest Tax Capacity</u>
Worcester	Somerset
Talbot	Baltimore City
Montgomery	Allegany
Howard	Caroline
Queen Anne’s	Wicomico
<u>Highest Tax Effort</u>	<u>Lowest Tax Effort</u>
Baltimore City	Talbot
Allegany	Worcester
Prince George’s	Queen Anne’s
Wicomico	Kent
Somerset	Calvert

Source: Department of Legislative Services

The tax capacity index is highly influenced by the property tax and income tax, which are the two largest sources of revenue available to local governments. Those jurisdictions with high property valuations and income wealth, therefore, tend to be among those with the highest capacity. Worcester County has been able to achieve its ranking despite the fact that its income tax rate (1.25%) is the lowest in the State of Maryland.

C. DEFINE SERVICES

1. County Services Categorized

MFSG utilized a number of source materials to assist in evaluation of the potential for a tax differential in Worcester County. Several of the key sources included the adopted FY 2008 Worcester County Operating Budget; Adopted FY 2008 Ocean City Operating Budget; Department of Legislative Services 2006 Report on County/Municipal Tax Differentials and Tax Rebates; Department of Legislative Services 2007 Overview of Maryland Local Governments Finance and Demographic Information; Maryland Association of Counties 2007 Budget and Tax Rate Survey; State Department of Assessments and Taxation AIMS 2: Real Property Assessable Base July 1, 2007; Town of Ocean City Comprehensive Annual Report for FY Ended- June 30, 2007; Town of Ocean City Finance Department Working Documents; Town of Ocean City 2006 Adopted Comprehensive Plan; Worcester County 2006 Adopted Comprehensive Plan; Worcester County and Town of Ocean City Official Government Websites.

Using Worcester County's approved FY 2008 budget as a foundation, MFSG categorized County services into two classes: (1) those programs and services that are available and provided to Ocean City residents; and (2) those services and programs that are not available or provided to Ocean City residents. MFSG identified the costs related to each program and service. For County programs and services that rely on funding sources other than (or in addition to) property tax revenues, MFSG also documented those offsetting revenues. Additionally, MFSG documented any programs or services that were partially available or provided to Ocean City residents and documented the basis for allocating the budgeted expenses related. MFSG also evaluated those County services or programs that primarily provide support to identified County services and programs that are/may be available to Ocean City residents and allocated those "overhead costs" appropriately. Based on the assessed valuation of real property tax in Ocean City and in the remainder of Worcester County, MFSG calculated the "real" property tax rate for the entire County and a supplemental tax rate for those portions of Worcester County exclusive of Ocean City.

MFSG identified several County services or programs that are not offered and provided to Ocean City residents. These included services and programs offered by the Worcester County Tourism Department, Department of Public Works, Department of Recreation and Parks, Department of Emergency Services, Fire Marshal's Office, Department of Comprehensive Planning, approximately 90% of the Department of Development Review and Permitting, approximately 80% of the Sheriff's Office, 50% of the Department of Environmental Programs and 5% of Debt Service. These services and programs are further defined below.

- **Tourism** – The Worcester County Tourism Department consists of two employees and has an FY 08 operating budget of \$1,472,637. The Department provides residents of Worcester County and visitors with a variety of services and programs including the promotion of Worcester County businesses and tourism opportunities such as restaurants, spas, golf, camping, the Delmarva Discovery Center in Pocomoke City, Assateague Island and a variety of others.

Tourism services and programs offered by Worcester County are not available or provided in Ocean City. As indicated above, Ocean City's Department of Tourism provides complimentary tourism and economic development services for the residents and businesses in Ocean City. This agency consists of 30 employees and has an FY 08 operating budget of \$2,947,052. The Tourism Office provides a number of services and programs to residents and businesses within Ocean City and to visitors including the promotion of the visitor center, convention center, the beach, boardwalk, shopping, historic sites and museums, water sports, fishing, sightseeing, golf and many more. Ocean City also allows Worcester County to advertise on City produced marketing materials.

- **Public Works** – The Worcester County Department of Public Works is made up of the Public Works Administration Office and includes the Maintenance, Roads and Boat Landings Divisions consisting of 75 employees and having an FY 08 operating budget of \$7,507,104. Public Works Administration is responsible for the overall management of the other Public Works Divisions and for fleet maintenance. The Maintenance Division is responsible for the maintenance of 32 County Office Buildings, nine boat ramps, assorted parking lots and radio tower sites. The Roads Division is responsible for the day-to-day operation of County roads including road repairs, paving, drainage, limbing, cutting grass and plowing snow.

The Solid Waste Division is responsible for operating the County Landfill and Recycling Programs. The Water/Wastewater Division is responsible for providing Water and Wastewater services to the north end of the County. Both of these divisions function as enterprise funds and are self sufficient.

Public Works services and programs offered by Worcester County are not provided to Ocean City. The Town of Ocean City also maintains a Department of Public Works consisting of the Public Works Administration Office and includes the Construction, Maintenance and Solid Waste Divisions consisting of 150 employees and having an FY 08 operating budget of \$18,218,747. Public Works Administration/Engineering is responsible for the overall management of the other Public Works Divisions. The Construction Division is responsible for maintaining Ocean City's streets, alleyways and storm drains in addition to the majority of the city's buildings, street lights and beach crossovers. The Maintenance Division is responsible for the daily upkeep of Ocean City's 10 miles of beach and 2.5 miles of boardwalk, the seawall, street cleaning, the Cale parking system, signage of special events and janitorial services. The Solid Waste, Transfer Station and Recycling Division are responsible for the collection, processing, recycling and disposal of residential and commercial refuse.

Ocean City also provides Water and Wastewater, Transportation, Airport, Golf Course and Convention services and programs as enterprise funds.

- **Recreation and Parks** – The Worcester County Department of Recreation and Parks consists of 29.3 employees and has an FY 08 operating budget of \$2,341,071. The Department provides a variety of services and programs to residents of Worcester County

including youth after-school bowling and golf, floor hockey, high school track, soccer, youth volleyball and basketball and adult Aquanauts, indoor recreation soccer, power volleyball, recreational basketball and volleyball. Additionally, the Department provides a variety of fitness programs and motor coach tours and operates and maintains the County's park and recreation facilities.

Recreation and Parks services and programs are available to all County residents including those within the municipalities; Ocean City however is able to provide its residents with a full range of comparable recreation and parks services and programs. The Ocean City Department of Recreation and Parks consist of 48 employees and has an FY 08 operating budget of \$4,305,809. The Department provides a wide variety of Recreation and Parks services and programs to the residents of Ocean City including tournaments, adult aerobics, men's and women's basketball, line and jazz dance, indoor soccer, all age basketball, soccer, boating, dog obedience courses, walking, preschool recreation programs, sport camps, summer camps, youth programs in fitness challenge, babysitting, baseball, boys and girls basketball, girls indoor and outdoor lacrosse, cheerleading, start smart golf, soccer camp, and swimming lessons. The Parks component operates and maintains the City's Parks and Recreation Facilities.

- **Emergency Services** - The Worcester County Department of Emergency Services consists of 26 employees and has an FY 08 operating budget of \$2,156,326. The Department provides a variety of emergency services to residents of Worcester County including 9-1-1 services along with management of the countywide 800 MHz radio system provided by the Emergency Communications Division. Disaster preparedness, response, mitigation and recovery along with house numbering within the unincorporated portions of Worcester County are handled through the Emergency Management Division. The Department works with all county and State law enforcement agencies, Worcester County Volunteer Fire and EMS Departments, as well as all local, state and federal government departments and agencies. The agency is also responsible for preparing and implementing the County's Basic Emergency Operations Plan, the comprehensive, all hazards plan that coordinates the emergency management activities within the County.

Emergency services and programs provided by the Worcester County Department of Emergency Services are not provided in Ocean City. The Ocean City Department of Emergency Services consists of 42 employees and has an FY 08 operating budget of \$6,678,708. The Department provides a full range of emergency services to the residents of Ocean City that include a full service communication center, an 11 channel voted Edacs 800MHz trunked radio system. The Fire/EMS Division provides pre-hospital emergency medical services and full time paramedic/firefighting services to the residents of Ocean City and responds to about 4,450 calls in Ocean City and 550 calls in West Ocean City each year.

- **Fire Marshal** – The Worcester County Fire Marshal's Office consists of six employees and has an FY 08 operating budget of \$481,995. The Office is responsible for conducting fire investigations of all fires in the County where arson is suspected, the fire is undetermined by the Fire Department and/or an injury or death has occurred. The Fire

Marshal's Office also has the authority to enforce and perform the duties required under Maryland State Fire Prevention Code and the Worcester County Fire Prevention Code.

The Worcester County Fire Marshal's Office does not provide any direct services to Ocean City. The Ocean City Office of the Fire Marshal consists of nine employees and has an FY 08 operating budget of \$1,255,949. The Office provides the citizens of Ocean City with a wide range of services including fire investigations, plan review/inspections, QAP/liquor inspections, call outs and the authority to enforce and perform the duties required under the Maryland State Fire Prevention Code in addition to the Ocean City Fire Prevention Code.

- **Development Review and Permitting** – The Worcester County Department of Development Review and Permitting consists of 45 employees (three of which are BINGO Board members and three of which are Liquor License Board members) and has an FY 08 operating budget of \$2,015,326. The agency offers a wide variety of services and programs to Worcester County residents including The Planning Commission, Zoning Board of Appeals, Technical Review Committee, Building and Zoning Codes Administration, Electrical and Plumbing Permit Review and Permitting, Building, Construction and Zoning Inspections, Critical Areas Ordinance, Forest Conservation Ordinance, Stormwater Management and Subdivision Administration.
- **Comprehensive Planning** – The Worcester County Department of Comprehensive Planning consists of 8.3 employees and has an FY 08 operating budget of \$596,436. The agency offers several services and programs including Comprehensive Planning Recreation and Parks Planning, a variety of Land Preservation programs and GIS and Data services.

With the exception of the three BINGO Board members and three Liquor License Board members, services and programs offered and provided by the Worcester County Departments of Development Review and Permitting and Comprehensive Planning are not available or provided to Ocean City residents. Ocean City provides its residents with a full range of comparable services and programs. The Town of Ocean City's Department of Planning and Community Development consists of three main divisions: Planning, Zoning and Construction Inspections. The Department has a full time staff of 18 and an operating budget in FY 08 of \$1,802,250. The agency provides a wide variety of services and programs to Ocean City residents including a Planning Commission, Board of Zoning Appeals, Board of Port Wardens, Planning services, Zoning Code Administration and Enforcement, Development Review and Administration, Zoning Inspections, International Building Code Review, Inspection and Administration and Housing and Property Management Code Administration.

- **Sheriff's Office** – The Worcester County Sheriff's Office consists of 77.1 employees and has an FY 08 operating budget of \$5,107,952. The agency offers a full range of services and programs to the residents of Worcester County. These include a Civil Division that provides security for two circuit courts, a master's court and grand jury sessions,

Community Policing, Public School Liaison, S.T.A.R Team, Patrol Division and Bureau of Investigation.

With the exception of the Civil Division, which provides security for the courts within Ocean City, the Worcester County Sheriff's Department does not provide any services or programs to residents of Ocean City. The Town of Ocean City provides its residents with comparable urban level police protection services through the Ocean City Police Department. The agency consists of 132 employees and has an FY 08 operating budget of \$18,722,361. The Police Department provides a number of services and programs including Patrol, Criminal Investigations and Forensic Services, Quick Response Team, Bike, Mounted, K-Nine Units and Traffic Safety Units.

- **Environmental Programs** - The County Department of Environmental Programs consists of 16 employees and has an FY 08 operating budget of \$866,506. The Department provides several services including Septic System, Well, Plumbing Permits and Inspections, Building Permit Review, Beach Water Quality Sampling, Geological services and Public Education.

The Worcester County Department of Environmental Programs does not provide Septic System and Plumbing Permitting and Inspections for Ocean City. Ocean City has no private septic systems and plumbing permitting and inspection services are provided by the Ocean City Department of Planning and Zoning and Waste Water Division.

2. Debt Service

Worcester County's FY 2008 Adopted Budget identifies \$5,632,335 in Debt Service. MFSG has allocated \$5,370,132 to the County-wide pool and \$262,203 in the Non-Ocean City pool for an MDE Water Quality Bond that is not available/applicable to Ocean City.

3. Indirect Expense Departments / County Overhead

MFSG identified \$34,455,576 in indirect costs associated with services provided by the County Commissioners, Treasurer and Human Resources Departments to other County Departments along with costs for Other General Government and Miscellaneous (primarily insurance and benefits— of which \$12,527,529 is allocated to the Board of Education for Other Post Employment Benefits, or OPEB). These costs were allocated as overhead to each of the County Departments based on a percentage allocation.

D. CALCULATION OF TAX DIFFERENTIAL

1. Budget Allocation

Worcester County's FY 2008 Approved Budget from the Worcester County Fiscal Year 2007/2008 Operating Budget was split between operating expenditures and revenues. The expenses of each individual departmental budget were designated as "direct expenses". Departments that were defined as supporting other departments (i.e., overhead) were designated as "indirect expenses", and the expenses of these departments were proportionately allocated to each of the "direct expense" departments based on the number of employees within each "direct expense" department; Board of Education and Wor-Wic Community College employees were excluded from the departmental allocation by employee since they do not receive assistance from supporting departments. County Commissioners, Treasurer, Human Resources, Other General Government and Miscellaneous were identified as supporting/"indirect expense" departments. These "indirect expenses" were then added to the "direct expenses" resulting in total expenses. This amount equals \$175,607,743 which is Worcester County's total FY 08 expenses.

With the exception of *Full Year Real Property Tax*, all revenues within the County's Approved Budget were identified as offsetting revenues since they offset the expenditure amount due to be collected from property taxes. As with expenses, offsetting revenues were categorized as "direct offsetting revenues", and the offsetting revenues of those supporting the "direct" departments were allocated proportionately by employee size and added to "direct offsetting revenue" departments, resulting in total offsetting revenues. This amount equals \$56,791,162 which is Worcester County's total FY 08 revenues less real property taxes (\$118,816,581 – this amount is \$270 less than the \$118,816,851 recorded as *Full Year Real Property Tax* under Revenues in the Treasurer Department due to a summation error in the County's calculation of Treasurer Revenues).

Total expenses less total offsetting revenues gives the revenue required to be collected from property taxes (\$118,816,581). Using the information gathered pertaining to County services provided, a determination was made as to whether or not each department's services were provided to Ocean City or not. Those services that are not provided within Ocean City (see previous section) were excluded from the \$118,816,851 to be recovered through property taxes. This amount was determined to be a total \$13,894,610.

For some of the departments detailed in the previous section, only a portion of expenses was designated as not provided to Ocean City. Development Review and Planning expenses were allocated pertaining to the percentage of employees with responsibilities for services provided to the City. Expenses were allocated pertaining to the three BINGO Board members and three Liquor License Board members. Sheriff's Department expenses were allocated based on the percentage of employees working in Ocean City. Expenses were allocated only pertaining to the 8.5 part-time Court Deputies and 9.3 Temporary Deputies assumed to work in Ocean City courts. Environmental Programs expenses were allocated based on the employees who had responsibilities pertaining to the services provided to the City. The five Environmental Sanitarian III's, one Plumbing Inspector I and two Plumbing Inspector II's were taken out of the employee allocation since these employees' job responsibilities are related to services not

provided to Ocean City (sewer and septic services). Allocated to the Board of Education from Miscellaneous (insurance and benefits) was \$12,527,529 for Board of Education OPEB. Also, the Debt Service MDE Water Quality Bond was allocated as a Non-Ocean City expense since Ocean City does not receive water or sewer services from the County.

2. Tax Differential

Exhibit 4, below, shows the real property assessments for each municipality in Worcester County. It can be determined through the exhibit that 62 percent of all of Worcester County's assessable tax base pertains to Ocean City.

Exhibit 4 – Real Property Assessments

Municipality	Real Property Assessments*	Percent of Assessments
Ocean City	\$ 10,157,709,442	61.9%
Berlin	335,500,770	2.0%
Snow Hill	96,958,427	0.6%
Pocomoke	205,189,532	1.2%
Total	\$ 10,795,358,171	65.8%
Ocean Pines	3,375,778,234	20.6%
Unincorporated areas	2,247,377,314	13.7%
Worcester County	\$ 16,418,513,719	100.0%

**Real property less exempt property from State of Maryland tax tape as of 7/1/07 per Ocean City Staff*

Dividing the County-wide revenue required from property taxes by total Worcester County real property assessments equals the tax rate for County-wide residents. Dividing the Non-Ocean City revenue required from property taxes by total Worcester County real property assessments less Ocean City real property assessments equals the tax rate for Non-Ocean City residents. The 64 cents (per \$100 of assessable property) tax rate in the exhibit below is to be paid by all County residents **including** those in Ocean City. The 22 cents (per \$100 of assessable property) tax rate in the exhibit below is to be paid by all County residents **excluding** those in Ocean City. This 22 cents is the tax differential between Ocean City and Worcester County. To adjust the current tax rate of 70 cents to be fair and equitable for Ocean City and Worcester County residents, it should be corrected to 64 cents (a decrease of 6 cents) for Ocean City residents and 86 cents (an increase of 16 cents) for Non-Ocean City residents.

The Worcester County/Ocean City tax differential is depicted in Exhibit 5 below.

Exhibit 5 – Tax Differential

	Revenue Required from Property Taxes		Tax Rate*
County-Wide	\$	104,921,971	\$ 0.64
Non-Ocean City	\$	13,894,610	\$ 0.22
Total	\$	118,816,581	\$ 0.86

**Per \$100 of assessable property*

The entire tax differential analysis is attached as an appendix to this report.

3. Implementation

MFSG’s analysis indicates that for FY 08, Worcester County will need to collect \$118,816,581 in property tax revenue. Our analysis indicates that \$104,921,971 of the property tax collected should be paid by all County residents including those in Ocean City but that \$13,894,610 in property taxes should not be paid by Ocean City tax payers. This \$13,894,610 is therefore the amount that the tax differential is calculated from and would result in a \$0.22 adjustment of the \$0.70 County-wide property tax rate. This \$0.22 adjustment would cause the Ocean City tax rate to decrease 6 cents to 0.64 and require the remainder of Worcester County’s tax rate to increase 16 cents to \$0.86.