

Council Agenda Report

Date: April 22, 2022

Prepared by: Tom Carroll, City Manager

SUBJECT: 2023 Property Tax Rate Options

Recommendation: That Council decide whether to accept the “constant yield tax rate” for FY23 of .8096 or keep the FY23 tax rate at .8301.

Summary

Staff will be presenting the 2022-23 draft Budget (FY23) to Council in May. However, outside deadlines require that Council provide guidance in the next three weeks on the FY23 property tax rate. In order for Dorchester County to include Cambridge taxes on the upcoming tax bill, Cambridge has to set its tax rate for FY 23 by May 20th.

I am thus asking Council to provide direction on the FY 23 tax rate on April 25th. Council has two options which will be detailed below.

Background

The City of Cambridge relies on property tax as our primary source of tax revenue for operations and capital needs.

In the budget year 2021-2022 (FY22) that concludes on June 30th, the property tax rate for the City of Cambridge is 0.8301. To the taxpayer, this means a property owner pays the City of Cambridge 83.01 cents for every \$100 of value. For the owner of \$100,000 property, the annual cost is \$830.10. In FY22, this tax rate generates for Cambridge \$6,589,792.

The State of Maryland Department of Assessments and Taxation annually calculates the tax rate for the next fiscal year that will generate the same amount of property tax as the current year. This is referred to as “constant yield tax rate”. In order to generate the same \$6,589,792 for next year, the tax rate will go from 0.8301 to 0.8096, a drop of 2.05 cents per \$100 of property value. This is the default new tax rate for FY23 unless the Council takes a step to alter it. For the owner of \$100,000 property, the annual cost of the constant yield tax rate of 0.8096 will cost \$809.60 next year, a reduction of \$20.50. This assumes the property value for this taxpayer stays the same which may or may not be the case.

Process

If Council wishes to accept the “constant yield tax rate” and generate the same amount of total property tax revenue next year as in the current year, no action is required on April 25th. Staff will prepare the FY23 budget with an assumed \$6,589,792 in property tax revenue.

If Council wants to set a tax rate higher than 0.8096, a public hearing is required by state law. The only date that is feasible to meet our May 20th deadline to have Dorchester County handle

Cambridge's property tax collections is May 9th. A council motion to set this public hearing for May 9th would be appropriate.

Recommendation

I am writing this memorandum on my third day of work for the City of Cambridge. I do not have anything close to a complete understanding of each Commissioner's priorities for FY23, nor do I have a full sense of our operating and capital needs. That said, I have spent enough time reviewing our planning documents, driving the community to evaluate our infrastructure, inspecting our facilities and equipment, and reading materials to know that the City of Cambridge needs to invest more in the coming years. I would recommend we keep our tax rate at 0.8301 for FY23.

Continuing the 2022 property tax rate into 2023 will generate \$166,759 more next year, a 2.5% increase in revenue. This small increase in revenue seems appropriate given the increased costs of fuel, materials and supplies, and yet-to-be-determined cost of living increases for City employees.

Accordingly, staff recommends Council set a public hearing for May 9th to consider a tax rate of 0.8301 for FY 23. Setting the public hearing does not automatically set the tax rate for next fiscal year, but deciding to not hold the public hearing means it will be no more than 0.8096 in FY 23.