The Fiscal Contributions of Maryland's Municipalities

THE MARYLAND MUNICIPAL LEAGUE
The Association of Cities and Towns

SAGE policy group

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Executive Summary

Maryland's 157 municipal governments support significant tax revenue generation and attendant public investment by fostering population growth, engaging in thoughtful household clustering, supporting efforts to promote tourism, enhancing property values, and supporting employment and local businesses through their operations and services.

As of fiscal year 2023, Maryland's municipalities generated an estimated $5.7 billion in state-level tax revenues; $3.2 billion in income tax revenues, $2.3 billion in sales tax revenues, and $207 million in property tax revenues.

Tax Category	Revenues ($ millions)
Income	$3,241.1
Sales	$2,295.1
Property	$207.2
Total	**$5,743.4**

Municipalities are particularly valuable for their ability to generate elevated levels of sales taxes relative to their populations and land area, accounting for 33.8 percent of all statewide business sales but occupying less than 5 percent of the state's land area. Sales per capita are approximately 50% higher in Maryland's incorporated places, according to U.S. Census Bureau data. That higher level of per capita business revenues in municipalities accounted for $797 million in additional sales tax revenues in FY 2023.

Maryland's municipalities account for over half of total local government spending on economic development. Relatedly, counties in which a higher proportion of the population lives in municipalities support higher economic development spending on a per capita basis. Consequently, municipalities drive business formation and retention in a way that is difficult to quantify but nonetheless real. These investments also contribute to the fact that 60 percent of the state's top tourist attractions, as ranked by Visit Maryland, are located in, or border, municipalities.

Incorporated places also tend to bolster the assessed value of properties located within their borders, with one study finding that property values increase by 12 to 13 percent in the long run following the formation of a new city. This effect alone means that the assessed value of Maryland's real property is roughly $21 billion higher due to the existence of municipalities. The result is approximately $24 million in additional annual property tax revenues for the State.

These quantifiable impacts represent only a small portion of the impact of municipal governments on Maryland's fiscal health. By serving as Maryland's economic hubs, retaining and supporting businesses, providing services efficiently and effectively, and investing in infrastructure and other quality of life improvements, municipalities act as economic engines that generate diverse tax streams for the State of Maryland. The draw of municipalities is evidenced by the incorporated places in Maryland, excluding Baltimore, accounted for 48% of the population growth in the State in 2023.

Many municipal contributions to Maryland's economic and fiscal sustainability are nuanced and therefore difficult to measure. This report endeavors to measure the financial contributions of Maryland's municipalities to the State budget to the extent possible.

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NATURE OF THE ENDEAVOR

This Maryland Municipal League commissioned report examines the ways in which Maryland's municipalities bolster revenue for State government. This is a follow up effort to a 2023 Sage report that quantified the first order economic impacts generated by the operations of Maryland's incorporated places.

This report examines the fiscal impacts generated by both operations and broader beneficial economic impacts of Maryland's incorporated places. For instance, municipalities drive much of Maryland's economic development/marketing efforts, increasing the State's ability to retain and attract businesses. Municipalities are also disproportionally home to Maryland's most formidable visitor attractions, helping to induce spending and retail sales tax collections.

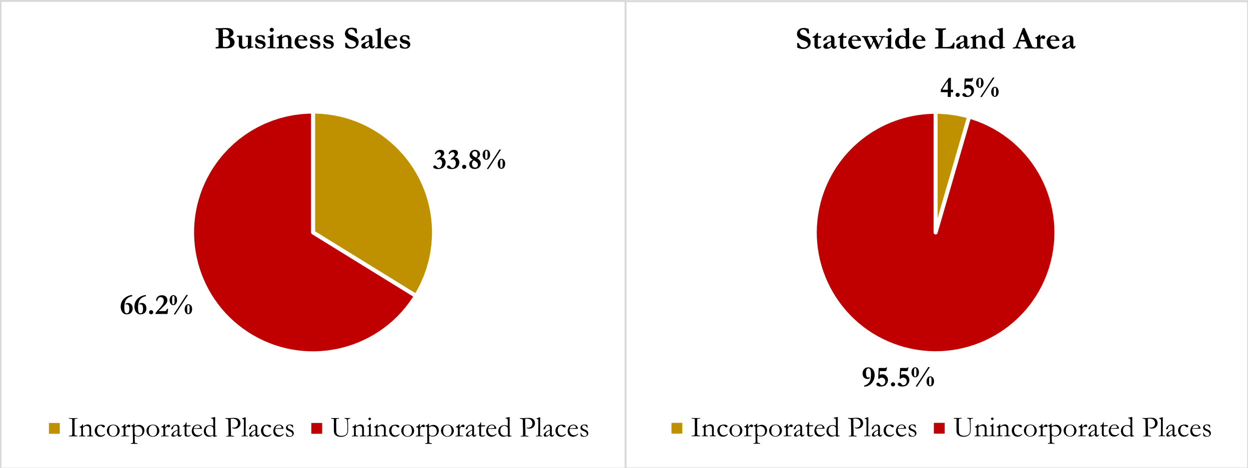
Likewise, municipal provision of services and investments in infrastructure produce higher assessed property values, boosting State property tax revenues. Perhaps the greatest impact is their ability to attract new residents, who are drawn to municipalities' more cultivated environments, denser service provision, and attendant improved quality of life.

Quantifying Municipal Tax Revenue Generation

SALES TAX REVENUES

Maryland's municipalities account for 33.8 percent of all statewide business sales, according to U.S. Census Bureau data characterizing sales by municipality and jurisdiction, despite occupying less than 5 percent of the state's land area.

Exhibit 1: Municipal share of statewide business sales and land area



Source: Maryland Department of Legislative Services, Local Government Finances in Maryland, FY 2022, U.S. Census Bureau

Based on that data and Maryland's most recent Comprehensive Annual Financial Report (CAFR), sourced from the Comptroller of Maryland, the spending that occurred within municipalities generated approximately $2.3 billion in sales tax revenue in 2023. Sales per capita are approximately 50% higher in Maryland's incorporated places, according to U.S. Census Bureau data. That higher level of business revenues in municipalities accounted for $797 million in additional sales tax revenues in FY 2023.

ECONOMIC DEVELOPMENT AND TOURISM

Maryland's municipalities make significant investments in economic development, with room to grow. In FY 2022, the state's municipal governments spent more than $163 million on economic development which is over half of total local government spending on economic development.

Exhibit 2: Local Economic Development Spending by Municipalities and Jurisdictions, FY 2022

	Municipalities	Jurisdiction	Total Local	Municipal Share
Allegany	$576,147	$5,965,545	$6,541,692	8.8%
Anne Arundel	$0	$30,774,304	$30,774,304	0.0%
Baltimore City*	$118,186,110	$118,186,110	$118,186,110	100.0%
Baltimore County	$0	$15,601,597	$15,601,597	0.0%
Calvert	$171,482	$1,022,331	$1,193,813	14.4%
Caroline	$945	$293,290	$294,235	0.3%
Carroll	$1,456,372	$4,674,198	$6,130,570	23.8%
Cecil	$45,365	$3,911,591	$3,956,956	1.1%
Charles	$0	$2,221,239	$2,221,239	0.0%
Dorchester	$2,113,845	$1,505,789	$3,619,634	58.4%
Frederick	$10,407,324	$17,320,828	$27,728,152	37.5%
Garrett	$128,893	$5,930,586	$6,059,479	2.1%
Harford	$883,253	$14,901,687	$15,784,940	5.6%
Howard	$0	$4,718,557	$4,718,557	0.0%
Kent	$83,494	$628,755	$712,249	11.7%
Montgomery	$2,597,073	$4,436,304	$7,033,377	36.9%
Prince George's	$6,368,032	$19,508,831	$25,876,863	24.6%
Queen Anne's	$0	$1,259,160	$1,259,160	0.0%
St. Mary's	$112,399	$2,456,571	$2,568,970	4.4%
Somerset	$184,066	$925,961	$1,110,027	16.6%
Talbot	$3,717,390	$897,649	$4,615,039	80.5%
Washington	$2,414,869	$8,573,634	$10,988,503	22.0%
Wicomico	$0	$358,541	$358,541	0.0%
Worcester	$13,961,000	$6,522,468	$20,483,468	68.2%
Total	**$163,408,059**	**$272,595,526**	**$317,817,475**	**51.4%**

Source: Maryland Department of Legislative Services, Local Government Finances in Maryland, FY 2022
*Note: Baltimore City is both a municipality and jurisdiction

There are certain correlations in the data, and these likely form the basis of best practice diffusion in Maryland. For instance, Talbot, Worcester, Dorchester, and Frederick counties are the four jurisdictions with the highest share of economic development spending occurring at their municipal levels, respectively. Not coincidentally, all rank among the top six counties in Maryland in terms of local spending per capita on economic development. Baltimore County and Howard County, on the other hand, home to no municipal governments, rank 18th and 19th among all counties in terms of economic development expenditures per capita.

Partially as a result of these investments, municipalities account for a disproportionate share of the state's tourist attractions. Seven of the ten "Best Places to Visit in Maryland," as ranked by U.S. News and World Report are either within or border a municipality and among Visit Maryland's "Top 20 attractions in Maryland," 12 are located within or border incorporated places. Visitation feeds State of Maryland coffers, including by supporting retail sales tax collections.

PROPERTY TAX REVENUES

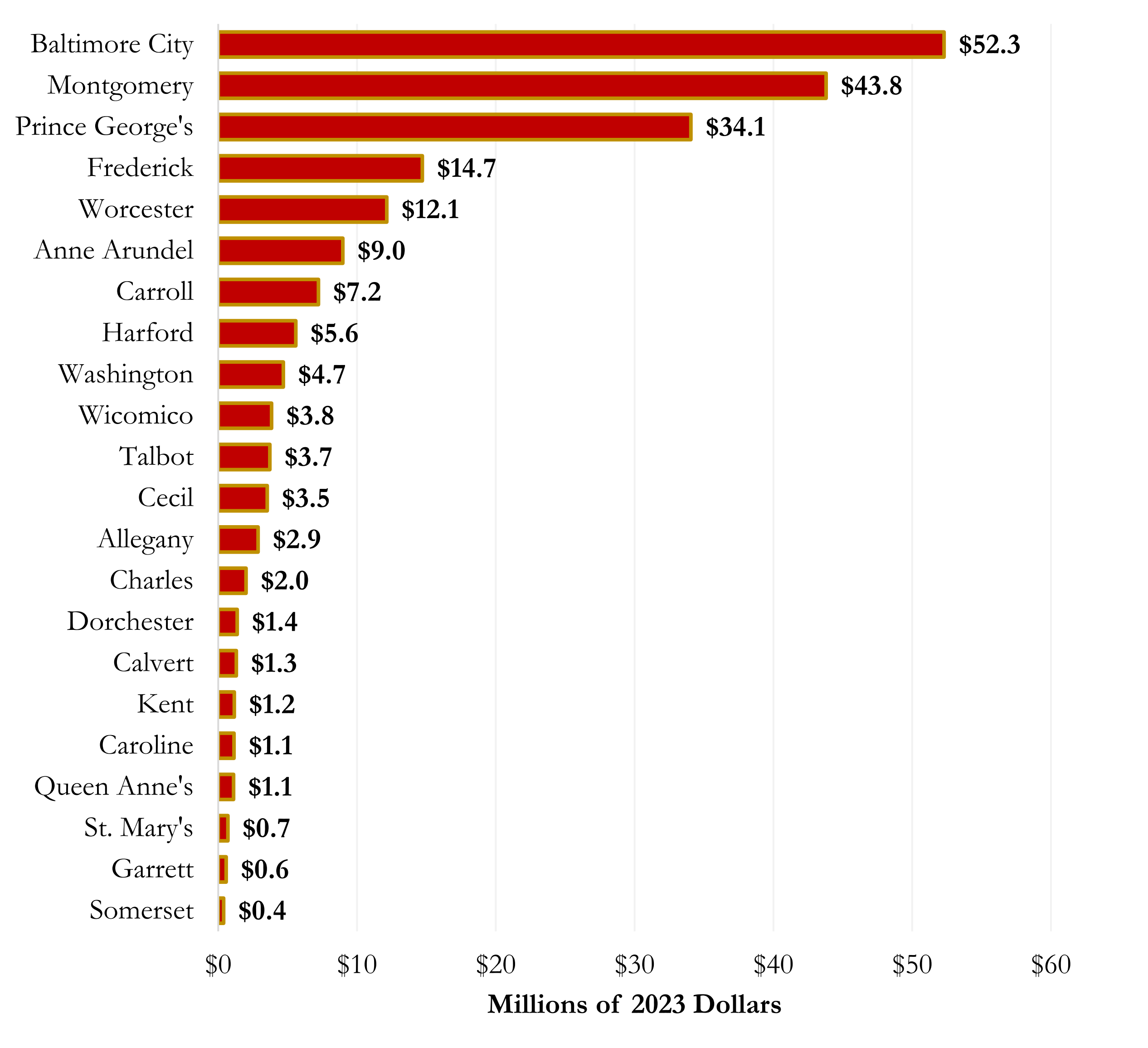
Maryland's municipalities have outsized assessable bases relative to their geographic and demographic footprints. That produces significantly augmented property tax revenues for the State. The state's 157 municipalities have an assessable base of approximately $185 billion.[1] Given the state-level real property tax rate of 0.112 percent, the assessable base located within municipalities supports approximately $207 million in annual property tax revenues for the State government.

While counties would still support property tax revenues absent municipal governments, the assessed value of the properties generating that revenue would be lower. Research indicates that new city formation increases property values 4 to 5 percent during the two years following formation and 12 to 13 percent over time.[2] Put another way, absent incorporation, the assessable base in Maryland would theoretically be 12 to 13 percent lower.

Using a midrange estimate of 12.5 percent appreciation due to incorporation, Maryland's assessable base is bolstered by approximately $21 billion per annum and its state-level property tax collections are increased by nearly $24 million due to the existence of municipalities.

[1] This is sourced from the FY 2022 Local Government Finances in Maryland report from the Department of Legislative Services. All figures have been adjusted for inflation to reflect June 2023 dollars using the Bureau of Labor Statistics' Consumer Price Index.
[2] Carlianne Patrick, Christopher Mothorpe, Demand for new cities: Property value capitalization of municipal incorporation, Regional Science and Urban Economics, Volume 67, 2017, Pages 78-89. https://www.sciencedirect.com/science/article/pii/S0166046217301679

Exhibit 3: State-level Real Property Tax Revenues Generated within Municipalities by County



Source: Maryland Department of Legislative Services, Local Government Finances in Maryland, FY 2022

ASSESSABLE BASE

Many of the state's municipalities account for an outsized share of their counties' assessable base relative to population, typically due to being more densely developed and populated than non-incorporated portions of their counties. This pattern would be even more dramatic but for the presence of voluminous amounts of valuable agricultural land, the majority of which is located beyond municipal boundaries.

Due in large measure to the more magnetic appeal of municipalities, the value of taxable assessable base has expanded at a more rapid rate in Maryland's municipalities than in unincorporated areas in recent years, growing 6.9 percent between FY 2020 and FY 2022, compared to 6.2 percent across the entirety of the state.[3] Among the implications is bolstered state-level property tax collections.

Part of the increase in property valuations is driven by municipal service provisions and investments. For instance, incorporated places typically spend approximately one out of every four dollars on police, fire fighters, or other forms of public safety. They also invest heavily in public infrastructure like water and wastewater and provide services like refuse collection while maintaining robust parks and recreational opportunities. These factors increase the demand for residential property within municipalities, ultimately bolstering the assessable base.

INCOME TAX REVENUES

The residents of municipalities accounted for approximately $3.2 billion in State income tax revenues in 2023, based on per capita income and population data from the U.S. Census Bureau and financial data from the most recent Maryland CAFR. Specifically, the estimate was derived by applying the share of statewide income accounted for by municipalities to total FY 2023 state-level income tax revenues.

POPULATION

Approximately one in four Marylanders lives in a municipality, though the population share varies substantially statewide. In recent years, municipalities have accounted for an outsized share of the state's population growth. Excluding Baltimore City, the state's municipal population expanded 0.8 percent in 2023, well above the 0.3 percent expansion in Maryland's unincorporated places.[4] Put another way, incorporated places other than Baltimore City accounted for 48.0 percent of the state's 2023 population growth, but just 15.9 percent of the state's population.

This dynamic has been more evident over the past three years. From 2020 to 2023, the state's unincorporated population expanded just 0.3 percent, with virtually all of that growth occurring in 2023. Municipal population less Baltimore City expanded 1.2 percent over that three-year period. Growth has been widely distributed across municipalities. More than 55 percent of the state's municipalities registered population growth in 2023.

[3] This statistic excludes Baltimore City.
[4] Baltimore City is both a municipality and county-level geography and its population has been in decline since the 1950s—a common occurrence for cities that were large industrial centers in the middle of the twentieth century. For this reason, the study team deems it relevant to examine the change in municipal population excluding Baltimore City. Fortunately, the Maryland Department of Planning provides aggregated Census Bureau Data on municipal populations both including and excluding Baltimore City.

2023 STATE TAX REVENUES GENERATED BY MUNICIPALITIES

Maryland's municipalities generated an estimated $5.7 billion in income, sales, and property taxes for the State government in FY 2023.

Exhibit 4: Tax Revenues Generated in Maryland's Municipalities, FY 2023

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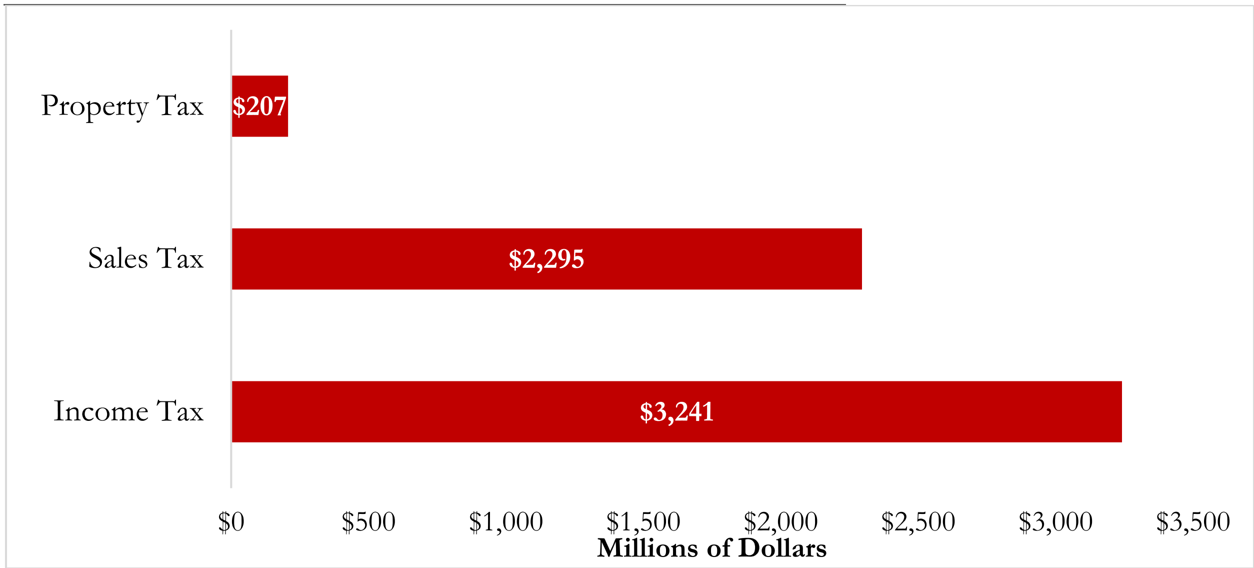

Source: Office of the Maryland Comptroller Annual Comprehensive Financial Report, FY 2023, Sage Estimates

Conclusion

In FY 2023, municipalities generated an estimated $5.7 billion for the State via income, sales, and property taxes despite occupying less than 5 percent of the state's land area. Maryland's municipalities generate significant revenues for the State of Maryland through the myriad ways in which they expand the statewide tax base, including by fostering faster population growth, investing in economic development, drawing tourists, attracting businesses, and enhancing property values, among others. Beyond the direct taxes generated, incorporated places lead to accelerated tax base growth. For instance, municipal formation tends to enhance property valuations by 12 to 13 percent over the long run, an effect that generates approximately $24 million in additional property tax revenues for the State each year.

About Sage Policy Group

Sage Policy Group is an economic and policy consulting firm headquartered in Baltimore, MD. Dr. Anirban Basu, Sage's chairman and CEO, founded the firm in 2004. Over a period spanning nearly two decades, Sage has managed to create a client base that encompasses more than forty states and seven countries and includes Fortune 500 companies, NFL teams, aquariums and zoos, state and local governments, insurance companies, banks, brokerage houses, major medical systems, trade organizations, and law firms, among others.

The company is especially well known for its analytical capabilities in economic impact estimation, school enrollment forecasting, economic development, economic forecasting, fiscal impact analyses, legislative analyses, litigation support, and industry outlooks, and has significant experience in the subject areas of construction, healthcare, energy, real estate, environmental economics, manufacturing, professional sports, lotteries, agriculture, tourism, entrepreneurship, government contracting, secondary and post-secondary education, and the economics of retirement. The firm is also known for its superior communications and messaging skills.

In addition to leading Sage, Dr. Basu has emerged as one of the nation's most recognizable economists. He serves as the chief economist to Associated Builders and Contractors, the Maryland Bankers Association, and the International Food Distributors Association and as the chief economic adviser to the Construction Financial Management Association. He chaired the Maryland Economic Development Commission from 2014 to 2021 and currently chairs the Baltimore County Economic Advisory Committee. He has been interviewed by CNBC, CNN, Fox Business, Axios, Bloomberg, the New York Times, and many others.

Dr. Basu's lectures in economics are delivered to audiences across the U.S. and abroad. In recent years, he has focused upon health economics, the economics of education, and economic development. He has lectured at Johns Hopkins University in micro-, macro-, urban, and international economics, and most recently, global strategy. He is presently the Distinguished Economist in Residence at Goucher College, where he teaches History of Economic Thought.