CAMBRIDGE MATTERS

Commissioner Steve Rideout

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What follows is something that I hope will be helpful to you but may not be interesting or enjoyable reading. It has to do with such things as “Constant Yield” and “Tax Differential”. While some of you are familiar with these terms and how they relate to the taxes that each of us pays for real estate that we own in the city, others of you may not have a clue. My plan is to explain in simple terms how these two matters impact you so that you can make a decision about who, if anyone, in county and city government you want to contact and what you want to tell them/us.

As we approach budget time for the city and county, these two issues arise every year. “Constant Yield” is the easier one to address, so I will take that on first.

Each year when real estate taxes are about to be determined, the State of Maryland provides each city and county with two things that help determine “Constant Yield”. The first is what the total real estate assessment is for the City (and for the county). In other words, how many millions of dollars all the real estate in the city is worth as assessed.

Based on what that assessment was for the year before and the tax rate that we set for that year, a dollar amount is determined for what income the City will receive, if all real estate taxes are paid, for last year. This year the State of Maryland provides each city and county what the total real estate assessment is for this year. With that information they then calculate what the tax rate would be this year if the city were to seek to receive from the taxpayers of real estate taxes the same amount of money (the Constant Yield) as was determined to be due last year.

Last year our real estate assessment for real estate in the city was lower than it is this year. Because of the higher assessment, to obtain a “Constant Yield” the tax rate for real estate in the City of Cambridge would go down from .8679 per $100 of assessed value to .8473 per $100 of assessed value. Cities and counties are allowed to decide if they will accept the “Constant Yield” or set some other tax rate that can be higher or lower than either last year’s tax rate or the tax rate that would provide a “Constant Yield”.

One of the things that the Cambridge City Council will need to determine at a public hearing at which citizens may comment, is what the tax rate will be for Fiscal Year 2021. Will it be the rate that provides a “Constant Yield” or will it be a rate that his lower or higher than would provide the “Constant Yield” or even higher or lower than last year’s rate.

You may recall last year that we raised the rate about 5 cents per $100 of assessed value because we wanted to provide a substantial raise to our police officers who were being significantly underpaid and had been for years. There were other reasons for the increase such as the need to start saving for replacement of fire trucks and other vehicles.

As part of the budget process for the city, we will be impacted this year by a few things. Had all things been about the same as last year, it would have been a fairly simple process; but all things are not the same. With the Covid-19 virus, businesses have been closed, people have lost jobs, tax monies and federal grants coming to the State are down significantly, and that all means that monies that have come to Cambridge from the State will not be as plentiful as they have been in the past.

The other issue that needs to be considered in this context is the “tax differential” that the county can give to city residents who own real estate in the city; but it is not required to do. Each year the county calibrates under a long-standing formula a value for what services the city provides for its citizens that the county does not have to provide because the city is providing them. You can see this tax differential on your annual tax bill that you receive from the county. This year the tax differential is 7.3%. That means that the tax rate for county taxes that city real estate owners pay is reduced by 7.3% on their real estate in the city. That benefit goes directly to the owner of the property and not to the city.

Commissioner Hanson, City Manager Comiskey, and I met with County representatives to discuss what the tax differential could be for FY 2021 based on the formula that has been used for years. We were provided a very complete explanation of the process and how the differential was calculated. We were able to ask questions and provide information to help clarify what the tax differential should be for FY 2021. When all was said and done, the amount that was calculated based on the long-standing formula was 9.8%.

Again, this means that the county tax rate for FY 2021 on real property owned within the City of Cambridge could be 9.8% less than the rate set for real property owned that is located outside of the City limits. This again is a direct benefit to the taxpayer and not to the city. For this tax differential rate to be applied, the County Council must make the final decision.

On May 5th, the County will be having a public meeting with city representatives about what the tax differential should be for FY 2021. I understand that the proposal will be to keep the tax differential at the same rate as it is now – 7.3% rather than raising it to 9.8%.

Understanding that the County Council has the absolute right to set the rate as they choose, failing to follow the formula that has been long standing and in doing so maintaining the rate, places Cambridge residents at a disadvantage in at least two ways. The rate will not be raised; and because the assessed value of our homes has increased, we will be paying, in all likelihood, more to the county than we did last year while county residents will be paying the same as before. The reason for this is that the assessment of our homes and office buildings increased from last year, and Cambridge was the part of the County that was reassessed this past year.

So, what might this mean to you? As we on the City Council are unsure of what monies might be coming from the state, we will have to look at current costs, services we are providing, requests for salary increases, and what costs might be reduced or eliminated by changing how services are provided and what services are provided. What we decide will be impacted by a variety of data including “Constant Yield” and “Tax Differential” as well as what we know the State will continue to send to us as well as what they will no longer send to us.

Three of the 5 County Council Representatives represent a portion of the City of Cambridge. They are Council Members for Districts 1, 2, and 3. Their names and email addresses are below:

District 1 – Jay Newcomb – jnewcomb@docogonet.com

District 2 – William Nichols – wnichols@docogonet.com

District 3 – Ricky Travers – rtravers@docogonet.com

While the other two County Council members do not have a piece of Cambridge as part of their districts, please feel free to contact them as well. They are

District 4 – Lenny Pfeffer – lpfeffer@docogonet.com

District 5 – Libby Nagel – lnagel@docogonet.com

If you choose to do nothing, understand that they will probably go ahead and keep the tax differential at 7.3%. When this issue was raised during the prior city council, Commissioners Hanson and Cooke tried to generate interest and public support for improving the tax differential that city residents were provided. Almost no one did anything to let their county representatives know, and so no change took place.

If you choose to do nothing, your voice will not be heard by those who represent portions of the city. I hope that you will do something even if you are fine with what might happen. Contact your County Council representative and let them know what you think. It can be that you want the higher tax differential that has been calculated. It can be that you are happy to receive the lower rate of 7.3%. You can tell them whatever you want.

Understand that in the final analysis, the people mentioned above have been elected by you and the other people in their districts to represent our interests as county taxpayers. Failing to follow a formula that has been used for years without any protest or objection will show them that you do not care and that they can do pretty much as they please even when it is not being fair and equitable to you.

Thanks for reading.

Steve