



DEPARTMENT OF COMMUNICATIONS & MEDIA RELATIONS
INTEROFFICE MEMORANDUM

TO: Board of County Commissioners
VIA: Terry Shannon, County Administrator *TS*
FROM: Linda Vassallo, Director *Lv/Amber*
DATE: July 27, 2017
SUBJECT: Proposed Calvert Shores Municipality

Background:

Chesapeake Ranch Estates (CRE) proposed incorporating the Lusby Town Center, including the business district and CRE proper, into a new town called Calvert Shores (CS). On June 21, 2016, the Board of County Commissioners (BOCC) rejected the CS request to incorporate. As allowed for by Maryland law, the requesting entity may petition for a referendum. In August 2016, CS submitted required signatures to request a public hearing for referendum.

Discussion:

On July 11, 2017, staff conducted a public hearing to hear public comment regarding the CS request to take the issue of creating a new municipality to referendum; the BOCC voted to keep the record open until July 25, 2017.

Options: *(More detail attached)*

1. **Approve the referendum request.** A resolution specifying the day and hour for the election must occur. The election **must** take place not less than 40 nor more than 60 days after the resolution is passed. If the BOCC chooses this option, staff will coordinate with the County Attorney and return with a resolution that starts the clock on the 60-day requirement. Staff recommends coordination with the local election board and the CS organizing committee.
2. **Deny the referendum request.** Should the BOCC deny the referendum request, no further action would be required. The CS organizing committee, if still interested in pursuing, would have to start the process again.

Conclusion/Recommendation:

Deny the request (see rationale attached). Should the BOCC deny the referendum request, no further action is required following BOCC action. Should the BOCC wish to move forward with a referendum, please direct staff to return with a resolution.

Coordination:

JN / ts

John Norris
County Attorney

CC: T. Hayden, Director, Finance & Budget
G. Hatfield, Election Board

Staff Recommendation:

Based on the previous staff analysis/concerns presented to the BOCC in 2016, the fact that there was minimal public feedback, and the fact that residents and businesses currently located outside of CRE proper would see a tax increase, staff recommends denial of the referendum request.

Rationale:

Staff previously submitted the attached analysis and concerns to the BOCC regarding the CS proposal, its potential impact to the resident and impact on businesses in Lusby. We believe the analysis remains valid. Staff outlined concerns surrounding the proposal, including higher taxes and the impact on quality of services (infrastructure, law enforcement/public safety, inspections/zoning enforcement, infrastructure oversight and maintenance, snow removal, etc.) In addition to those concerns previously outlined by staff, the following rationale has been outlined to support the staff recommendation:

- If one assumes that the Property Owners Association of Chesapeake Ranch Estates (POACRE) does not eliminate the roads fee and the Special Tax District (STD), residents will pay, on average, about \$435 MORE. Even though the organizing committee stated that this is not their intent, it is not officially documented in any of the planning or charter documents.
- All residents and businesses within the proposed area to incorporate will see an increase in taxes (net 0.281 cents). Whether the fees (POACRE or STD) remain or are eliminated will only affect those currently required to pay the fees.
- Funds that were going directly to roads will now be used to fund another layer of government.
- The added level of government will cost more.
- At the conclusion of the public comment period, and including speakers from the public hearing, 43 individuals were for incorporation and 21 were against, for a total of 64 individuals submitting comments.
- Per the Calvert County Election Board, there are approximately 6,758 (as of 12/31/15) registered voters within the proposed municipality border. The total number of individuals weighing in during the public comment period comprised less than one percent (1%) of the total impacted population. The one percent does not include the total number of businesses impacted. There are approximately 75 known businesses within the proposed municipality boundary.
- Per Maryland law and verified by the Calvert County Election Board, the referendum is submitted only to the registered voters of the area proposed for incorporation. Therefore, for example, registered voters who rent a business property in Lusby but live outside of the incorporation boundary do not have a voice. Furthermore, the remaining Calvert County voters/taxpayers who could see a fiscal impact due to shifted taxpayer funding cannot vote.
- If a majority of those voting pass incorporation, the cost of the referendum is borne by the CS. If the majority of those voting deny incorporation, the cost of the referendum will be borne by the county [taxpayers].

Attachment: Analysis and Concerns, June 1, 2016

Calvert Shores Municipality — Summary

- Normally a municipality will cost residents more. This could be due to the fact that there is a new layer of government or perhaps due to the cost to improve their infrastructure and amenities which, on the positive side, in turn will likely increase their property values.
- Depending on assumptions and the BOCC's approval on the tax differential rate, the County revenue could decrease conservatively from \$2.2 million to \$4 million.
- The report indicates that the municipality would have a debt issuance limit of 20 percent of revenues, as compared to the County's debt issuance guideline of 9.5 percent.
- It is staff's understanding that one of the driving factors to create the municipality is to improve the infrastructure, mainly roads. Without the municipality, CRE could continue to utilize the current Special Tax District (STD) to generate a revenue source to make road improvements. Having an active STD provides them access to Federal Emergency Management Administration and Maryland Emergency Management Administration funds (in the event of natural disasters).
- Non-Chesapeake Ranch Estate (CRE) residents and businesses within the boundaries of the municipality will be paying for road improvements within CRE.
- Their plan is to implement mid-year, therefore we would need to work through that process.
- It does not appear that the Lusby business community has been given adequate information. In discussion with many business owners, they appear to be largely unaware of what is being proposed and the potential impact, good or bad, that an incorporated Lusby would have.
- It is not well defined how the Water & Sewer infrastructure will operate.

Calvert Shores Municipality — Pros and Cons

Pros:

- The report claims that residents could have more of a voice on local affairs.
- The report claims the proposed municipality could be more accessible, more accountable, and more responsive to the residents.
- The municipality will have more access to revenue streams to improve their primarily private infrastructure.
- The municipality will have more power/control.
- The municipality could have improved roads and amenities which could result in increased home values, though it is not clear why the same cannot be accomplished by the STD that POACRE requested and was approved.

Cons:

Residential

- **Taxes:**
- Normally, residents within a municipality pay higher taxes.

- This could be due to the additional services they are receiving or due to the fact that there is now an additional layer of administration. The start-up costs such as the purchase of heavy equipment, office equipment, administrative and staffing costs, and the location and/or construction of a "town hall" are all items that should be addressed. The new overhead required by establishment of the municipality could consume a significant portion of any new tax revenue anticipated, even with a tax differential from the County.
- The report makes the assumption that the County tax rate will decrease by the same differential as the towns of North Beach and Chesapeake Beach, or \$.336 and that they will use that rate as the majority of their tax rate plus 5 cents for a total municipality tax rate of \$.386.¹ Additionally, they will reduce the homeowner fees/dues to more than offset the additional 5 cents. The report also indicates that the STD will be eliminated within the municipality.

For example, the Town of Chesapeake Beach provides law enforcement coverage. To determine the County's savings, we calculate how much the County saves in its tax rate by the Town covering that cost and therefore, we can lower the County tax rate within that municipality accordingly.

In order to establish a tax differential range where the \$.336 would appear reasonable, services must be identified that the County now provides that, going forward, will be provided by the new municipality. It appears that to even approach this amount of differential, we would need to include the cost of maintaining the roads, which the County currently does not pay for since the overwhelming majority of the roads within the proposed boundary are private roads. So to say maintaining private roads would save the County money and therefore, we could reduce their County tax rate, would not be accurate.

Without considering the roads, the differential would be approximately \$.105. This would result in a loss in revenue to the County of approximately \$850,000 and require property owners in the municipality to pay \$.847 in County property tax and \$.386 in municipal property tax for a total property tax of \$1.233.

¹ The report states that the municipality tax rate proposed is 5 cents, but shows the tax differential as revenue to the municipality. The tax differential is not revenue to the municipality, but is a reduction in the County tax rate for municipal residents. It is therefore presumed that the Organizing Committee was confused, but intended the municipality tax rate to be \$.386.

General

- The municipality will be taking on a lot of responsibility and liability.
- It does not appear that the budget includes sufficient funds to cover the cost of Information Technology hardware, software, etc.
- **Business Impact:**

- Recruitment — If the new municipality does not want assistance with business recruitment from the Department of Economic Development, having one government entity, instead of two, allows the County to react more quickly and provide better resources to prospective customers. By adding a layer of government customers could have the red tape of two jurisdictions. If the fiscal impact through higher taxes are significant enough, this could cause a negative impact on Lusby businesses, making Lusby an undesirable location to operate and/or locate a business. If so, there will be a serious negative economic impact through business loss, job loss, and the ability to recruit new business into Lusby.
- Services — Many residents are already confused by the array of governmental jurisdictions they receive services from while locating or expanding a business in Calvert County. There are a number of services which either the County or State provide specific to business expansion efforts and, in many cases, for any residential expansion or construction projects. Some of the State agencies include the Maryland Department of the Environment, the Health Department and the State Fire Marshal. It is unclear how the coordination of efforts work following incorporation.
- **Public Water & Sewer** — The public water and sewer system in Lusby, including areas within the proposed boundary is currently owned and operated by the County. Chesapeake Ranch Estates currently provides water service within a defined boundary; CRE has no sewer service. If the County agreed to transfer via sale the public infrastructure, will Calvert Shores be able to acquire and operate the County-owned public infrastructure? If so, what costs would be passed on to consumers?
- **Quality of Services** — There are no guarantees Calvert Shores provides the same quality of services currently provided by the County upon incorporation. The County would most likely not be required to ensure services currently provided.