

**Wicomico County, Maryland**  
**Cost of Community Services Study**

Prepared by American Farmland Trust

October 2002



## **American Farmland Trust**

*American Farmland Trust* (AFT) is a nonprofit conservation organization founded in 1980 to protect our nation's strategic agricultural resources. AFT works to stop the loss of productive farmland and to promote farming practices that lead to a healthy environment. AFT provides a variety of services to landowners, land trusts, public officials, planners, agricultural agencies and others. Services include Cost of Community Services studies, workshops on farmland protection and estate planning, farmland protection program development and agricultural economic analysis.

National Office  
1200 18<sup>th</sup> Street, NW  
Suite 800  
Washington, DC 20036  
(202) 331-7300  
(202) 659-8339 fax

Mid-Atlantic Regional Office  
302 E Davis Street, Suite 201  
Culpeper, VA 22701  
(540) 829-5220  
(540) 829-5224 fax

Delmarva Field Office  
PO Box 169  
Queenstown, MD 21658  
(410) 827-4370  
(410) 827-5765 fax

For membership information or general information about AFT,  
call (800) 431-1499 or visit [www.farmland.org](http://www.farmland.org).

For information about AFT's work in the Delmarva call (540) 829-5220.

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## **EXECUTIVE SUMMARY**

American Farmland Trust conducted a Cost of Community Services (COCS) study to gain a better understanding of the financial impact of existing land uses in Wicomico County, Maryland. The study is a snapshot in time of current revenues and expenditures on a land use basis. It analyzes the financial demands of public services (e.g. schools, road and bridge maintenance, courts) and shows how much it costs to provide these services to farmland and open space, residential, and commercial land uses.

The Wicomico County COCS study analyzed the fiscal year 2001 actual revenues and expenditures for the county and the Board of Education. The county fiscal year 2001, which runs from July 1 to June 30, was chosen because it is the most recent year for which actual revenue and expenditure data could be obtained. The study focused on the Wicomico County general fund budget because it represents revenues and expenditures for most of the services provided in the county. Services funded by the general fund include public safety, state's attorney, planning and zoning, county administration, circuit court, public works and accounting.

The State of Maryland differs from many other states in that it distributes a significant portion of residents' income tax to the county in which they live. In Wicomico County, income tax revenues amounted to \$31 million and made up 39 percent of general fund revenues.

### **The COCS study found that for county services:**

- ?? Residential Development only generated \$66,823,696 in revenues to cover expenditures of \$81,083,924.
- ?? Commercial and Industrial Development generated revenues of \$24,102,665 to cover expenditures of \$8,071,722.
- ?? Farm and Open Land generated \$1,702,698, while expenditures were \$1,628,312.

In other words, for every \$1 of revenue generated by residential property in Wicomico County in fiscal year 2001, \$1.21 was spent providing services to those lands. For every \$1 received from commercial and business land uses in the county, only 33 cents was spent to provide services. For every \$1 received from ranch/farm/open land uses in the county, 96 cents was spent for services.

The Wicomico County COCS findings demonstrate that while residential development contributes the largest amount of revenue, its net fiscal impact is actually negative. Commercial and Industrial development offsets most of this shortfall, while Farm and Open Land contributes to the surplus.

## INTRODUCTION

Located in the center of the Delmarva Peninsula, Wicomico County is one of nine counties comprising Maryland's Eastern Shore. Its central location has made its county seat, Salisbury, an urban hub, but Wicomico continues as a vital agricultural community as well. Sussex County, Delaware, and Dorchester County, Maryland, are to the immediate north of Wicomico, while Somerset and Worcester counties border it to the south. Wicomico has coastal frontage only on the Chesapeake Bay side of the Peninsula.

Wicomico County has a population of nearly 85,000 residents and is expected to grow at a rate of 1.3 percent a year,<sup>1</sup> reaching 110,000 residents by the year 2020.<sup>2</sup> The county covers approximately 377 miles of the Delmarva Peninsula with 90,656 acres of agricultural land,<sup>3</sup> but between 1982 and 1990 over 600 acres of "undeveloped land" were converted annually to other uses.<sup>4</sup>

Wicomico's agricultural significance also is evidenced by \$186 million of annual agricultural product sales, 83 percent or \$154 million of which came from the poultry industry.<sup>5</sup> However, between 1982 and 1997 there was a 31 percent decrease in the number of farms,<sup>6</sup> and farm employment declined by 44 percent or just over 800 jobs.<sup>7</sup>

The Wicomico County Cost of Community Services study (COCS) is part of the Delmarva Farmland Strategy Project, which American Farmland Trust (AFT) initiated to bring new tools to communities that are struggling with how to accommodate change and growth while retaining a profitable agricultural sector. Included in the project are a suite of low-cost studies using each community's financial, land use and economic records and statistics to bring a local perspective to decisions about land use, fiscal and economic issues. When used, these tools can change the dialogue in a community from speculation to projection and from emotion to analysis. The project also includes completing Agricultural Industry Profiles and Impact of Growth on Agriculture studies in addition to Cost of Community Services studies for several Delmarva counties. The Town Creek Foundation and American Farmland Trust have provided the major funding for this project.

### **What is a Cost of Community Services Study?**

A COCS study is a case study analysis of the net fiscal impacts of different land uses in the present. It provides a snapshot in time of costs versus revenues based on current land use. Unlike traditional fiscal impact analysis, COCS studies are descriptive—not predictive—and are based on audited financial statements for a specific community. These analyses show what services private residents receive in return for the taxes they pay to their local jurisdiction.

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<sup>1</sup> Wicomico County Department of Planning & Zoning, 2002.

<sup>2</sup> Wicomico County Comprehensive Plan, 1998.

<sup>3</sup> USDA Census of Agriculture, 1997.

<sup>4</sup> Wicomico County Comprehensive Plan, 1998.

<sup>5</sup> USDA Census of Agriculture, 1997.

<sup>6</sup> Regional Economic Information System.

<sup>7</sup> USDA Census of Agriculture, 1997.

AFT developed the COCS approach to investigate three common claims staff often heard at community meetings:

1. Open lands—including working agricultural and forest lands—are an interim land use that should be developed to their “highest and best use”;
2. Farmland gets an “unfair” tax break when it is assessed at its actual use value for agriculture instead of at its potential use value for development;
3. Residential development will lower property taxes by increasing the tax base.

The process of conducting a COCS study is relatively straightforward and easy to understand. Information from financial statements is allocated to land use categories. The studies rely on this financial data and probing interviews with local government officials to understand how revenues were generated and how appropriations were spent during a recent year.

## **METHODOLOGY**

There are three basic steps in the process of conducting a COCS study:

1. Collect data: Obtain relevant budgets and reports; contact officials, boards and departments.
2. Allocate revenues and expenditures by land use.
3. Allocate expenditures by land use.

### **COCS Process in Wicomico County**

The Wicomico County COCS study was conducted using the fiscal year 2001 (July 2000 to June 2001) financial statements because this was the most recent year with closed books. The following three land use categories were deemed appropriate for the study: 1) Residential Development, 2) Commercial and Industrial Development and 3) Farm and Open Land.

For the purposes of this study, Residential Development is defined as property used for dwellings, *including farmhouses* and the one-acre “homesite” they occupy, apartments, townhouses, condominiums, and vacant residential and commercial/industrial parcels of less than five acres. Commercial and Industrial Development is defined as property actively used for business purposes other than agriculture or forestry, including retail and wholesale production and utilities. Farm and Open Land is defined as property used or designated as farmland, woodland or open land.

According to the Maryland State Department of Assessments and Taxation (SDAT), farmland and woodland is land that is being “actively used” for agriculture or forestry. The minimum acreage for open land or vacant land was based upon the SDAT minimum acreage requirement for land to qualify for the Agricultural Use Assessment. This requirement states that farmland must be three acres or greater and woodland five acres or greater to qualify. The higher value of five acres was chosen as the minimum acreage for the Open Land category. SDAT also requires that the one-acre “homesite” on farms be assessed at the residential rate. This requirement also was used as the basis for determining

the value of “excess land” on residential properties six acres or greater with houses. For these properties, the average one-acre residential value of \$19,134 was subtracted from the total land value to yield the “excess value.”

The table below provides a detailed description of the types of assessments that were grouped into the three COCS categories:

Maryland Land Use Categories		COCS Land Use Categories		
Class	Description	Residential	Commercial & Industrial	Farm & Open Land
Agriculture (A)	Properties receiving an Agricultural Use Assessment, Forest Conservation Management Agreement, and/or Private Management Plan	Farm houses and one acre		Farmland & farm buildings
Commercial (C)	Commercial properties		All parcels with buildings and vacant parcels ? 5 acres	Vacant parcels ? 5 acres
Industrial (I)	Industrial properties		All parcels with buildings and vacant parcels < 5 acres	Vacant parcels ? 5 acres
Residential (R)	Residential properties	Houses and land for properties ? 5 acres; houses and 1 acre of land for properties ? 6 acres		Vacant parcels 5 acres; excess land on parcels with houses ? 6 acres
Townhouses (T)	Townhouse and row houses	All properties		
Apartments (M)	Rental residential properties with four or more units, built as apartments	All parcels with buildings and vacant parcels < 5 acres		Vacant parcels ? 5 acres

1. Collect data: Obtain relevant budgets and reports; contact officials, boards and departments

Appointments were scheduled with Wicomico County officials and department heads. The purpose of these interviews was to obtain relevant information and to collect necessary

documents. The following were some of the materials gathered to conduct the analysis for the county:

- ?? 2001 assessed property values broken down by land use classification;
- ?? Fiscal year 2001 reports of calls made for EMS and police, building inspections and others per interviews with department heads; and
- ?? Wicomico County audited financial statements for fiscal year 2001.

Researchers evaluated revenues and expenditures from the perspective of the private taxpayer. The study was conducted at the county level, focusing on the county general fund. Wicomico County also maintains several enterprise funds that pay for airport maintenance, road construction and maintenance, solid waste disposal and public water and wastewater services. The funding and expense for these services were not included in the study as they are not accounted for in the general fund. However, if the county sold bonds and used the proceeds to finance the construction of the above facilities, the services were allocated to the appropriate land use and applied to the expenditures for debt principal and interest.

## 2. Allocate revenues and expenditures by land use

Researchers conducted interviews with local officials to get a better understanding of the county financial statements and to allocate fiscal year 2001 revenues and expenditures into the three land use categories. In the interviews, officials were asked how revenue was generated and who benefited from expenditures. Revenues generated by residents, such as income tax revenues, were allocated to Residential Development. Expenditures related to agriculture, such as the creation of ditches to drain standing water off farmland, were allocated to Farm and Open Land. Most items were not generated entirely by one land use, but were split between land uses.

Some line items had straightforward allocations because records were available by land use. For example, building permits were allocated according to how many fees were generated by residential development versus commercial development (Wicomico County farmers are not required to get permits to build farm structures). Line items without straightforward records by land use were broken down based on the activity in the associated department. For example, most of the county fire and emergency services were attributed to residential development, due to the nature of the calls run, with smaller portions going to Commercial/Industrial and Farm and Open Land.

### Calculation of “fallback percentages”

Even after extensive record searches, there was not a clear allocation into land use categories for some line items. For example, administrative salaries and public buildings serve the entire county in a general capacity. In this type of situation, a “fallback” percentage was used based on the breakdown of assessed value for each land use relative to the total fiscal year 2001 assessed value for Wicomico County. Thus, 71 percent of the total assessed value was from Residential Development, 25 percent from Commercial and Industrial Development and 4 percent from Farm and Open Land.

In calculating fallback percentages, vacant land and farms classified agricultural according to the assessor’s records were considered Farm and Open Land. The values of the farmland, barns and other structures contributing to the operation of the farm business were included in this category. Farmhouses and their homesites were excluded from Farm and Open Land classification, falling instead under Residential Development to correspond with the services required by residences. Fallback percentages were used as defaults for both revenues and expenditures.

3. Analyze data and calculate ratios

Once interviews were complete and the necessary data collected, the information was entered into a computer spreadsheet. The dollar amount for each line item of the budget was dispersed among the three land use categories according to the associated percentage breakdown. Once the percentages were entered for each line item, total revenues and total expenditures were summed for each of the three land use categories. By comparing total revenues to total expenditures in each category, the total net contribution or loss was calculated. This information is presented in a simple ratio that shows the actual expenditure for every dollar raised (see table of findings below). The findings were checked for accuracy and analyzed to understand differences in the ratios.

**FINDINGS**

Specific findings for Wicomico County are presented in the table below. The first two rows of the table show the total dollars allocated to each land use for revenues and expenditures. The third row shows the net dollar impact on the county budget for each land use. This was determined by comparing the revenues generated with the expenditures provided. The final row of the table presents this same information in the form of ratios. This clearly shows how much each land use costs for every dollar of revenue that it generates for the county.

In Wicomico County, Residential Development generated \$66,823,696 in revenues to cover expenditures of \$81,083,924, creating a deficit of \$14,260,228 to the county. Commercial and Industrial Development generated revenues of \$24,102,665 to cover expenditures of \$8,071,722, creating a surplus of \$16,030,943. Total revenues from Farm and Open Land were \$1,702,698 while expenditures were only \$1,628,312, which also contributed to the surplus and helped balance the county budget.

<b>Wicomico County</b>	<b>FY 01 Budget*</b>	<b>Residential Development</b>	<b>Commercial/Industrial Development</b>	<b>Farm/Open Land</b>
a) Total Revenues	\$92,629,059	\$66,823,696	\$24,102,665	\$1,702,698
b) Total Expenditures	\$90,783,958	\$81,083,924	\$8,071,722	\$1,628,312
Net surplus or (shortfall)		(\$14,260,228)	\$16,030,943	\$74,386
Final land use ratio		<b>1: 1.21</b>	<b>1: .33</b>	<b>1: .96</b>

\* Includes “Operating transfers in” and “Operating transfers out” of the general fund.

The final land use ratios are presented in the last row of the table and show the costs required per dollar of revenue generated in fiscal year 2001. For every dollar of revenue that Residential Development generated for Wicomico County, \$1.21 was required in public services for county residents. For every dollar of revenue that Commercial and Industrial Development generated in the county, \$0.33 was required in services. For every dollar that was generated by Farm and Open Land, \$0.96 was required for associated county services.

## DISCUSSION

In Wicomico County, Commercial and Industrial Development had the lowest net cost of the land uses studied. Farm and Open Land also generated more in revenues than it required in services. Residential Development, on the other hand, created a net loss in every county studied due to its higher demand for public services.

Community	Residential	Commercial/Industrial	Farmland/Open Land	Source
Median from COCS studies nationally *	\$1 : \$1.19	\$1 : \$0.26	\$1 : \$0.35	n/a
Carroll County, Maryland	\$1 : \$1.15	\$1 : \$0.48	\$1 : \$0.45	Carroll County Dept. of Management and Budget, 1994
Cecil County, Maryland	\$1 : \$1.17	\$1 : \$0.34	\$1 : \$0.66	American Farmland Trust, 2001
Frederick County, Maryland	\$1 : \$1.17	\$1 : \$0.50	\$1 : \$0.53	American Farmland Trust, 1997
Kent County, Maryland	\$1 : \$1.05	\$1 : \$0.64	\$1 : \$0.42	American Farmland Trust, 2002
Northampton County, Virginia	\$1 : \$1.13	\$1 : \$0.97	\$1 : \$0.23	American Farmland Trust, 1999
Wicomico County, Maryland	\$1 : \$1.21	\$1 : \$0.33	\$1 : \$0.96	American Farmland Trust, 2001

\*See Appendix for a complete list.

The Maryland agricultural use assessment law was the first of its kind, enacted in 1956. While this law remains one of the most effective, farm owners in some states pay even less in property taxes. As of 1993, farm owners in Delaware paid only \$0.09 in property taxes per \$100 of fair market value on agricultural land, the lowest in the nation. Farm owners in Maryland paid \$0.48 and those in Virginia \$0.56, with a national average of \$0.80.<sup>8</sup> The low assessment rate results in a considerable tax savings to farmers and, as the Maryland studies show, creates a favorable situation for farm owners in which their property tax payments more closely approximate what they receive in services.

<sup>8</sup> USDA Economic Research Service, 1993.

The expenditure per dollar of revenue required by Farm and Open Land in Wicomico County, at \$1:\$0.96, is significantly higher than the Farm and Open Land ratio of many other COCS studies, even in Maryland. Several factors contribute to this finding. According to the Maryland SDAT office in Wicomico County, nearly all land that is not developed receives the agricultural use assessment. Undeveloped land that does not receive this assessment has a low market and assessment value, relative to other non-agricultural land in the region. Wicomico's open lands were assessed at \$29 million, while agricultural lands were assessed at \$59 million. In comparison, Cecil County, Maryland, which has roughly the same scale of public service demands, has an open land assessment of \$111 million and an agricultural assessment of \$124 million. As a result, Farm and Open Lands in Cecil County contribute almost \$1 million more in revenue than the \$1,702,698 in Wicomico County.

At the same time, expenditures for several county departments were found to be higher than is common for services provided to Farm and Open Land. Based on interviews, the following budget amounts were allocated as expenditures for services to Farm and Open Land:

- ?? Planning – \$180,093 or 30 percent of their total budget.
- ?? Fire – \$293,289 or 9 percent of their total budget.
- ?? Corrections – \$246,947 or 3 percent of their budget for services including the incarceration of individuals arrested for trespassing and hunting on private land and others arrested for natural resource violations.
- ?? Sheriff – \$286,785 or 5 percent of their budget, partly due to the establishment of substations that provide more local patrols of rural areas.
- ?? Conservation of natural resources – \$109,439 was spent on farmland related issues.

These large expenditures, when added to the many smaller and routine county services for Farm and Open Land result in a higher than average ratio for this land use.

Despite the obvious effort to support agriculture in Wicomico County, suburban expansion continues to convert the Peninsula's prime agricultural lands to sprawling subdivisions. Between 1982 and 1997, the Delmarva Peninsula lost 81,900 acres of agricultural land.<sup>9</sup> Much of this was in the form of lowdensity residential development (0.5 acres or larger lot size). In Maryland, low-density development increased from 47 percent in 1973 to 58 percent in 1997 and is expected to reach 62 percent by 2020.<sup>10</sup> The Maryland Department of Planning estimates that Cecil County will lose 1.17 acres of agricultural and forest land with each new household between 1997 and 2020, Kent County will lose 1.29 acres and Wicomico County will lose 1.61 acres. These trends have prompted local groups interested in the agricultural industry to determine exactly how much land is necessary to keep agricultural alive on the Peninsula. Clearly, efforts will need to be stepped up in the coming years to sustain this important part of the economy and the heritage of the region.

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<sup>9</sup> National Resource Inventory, 1982, 1997.

<sup>10</sup> Maryland Department of Planning, 2001.

Working lands also provide services to local residents—and visitors—that are hard to account for economically. These non-market services include providing wildlife habitat, groundwater recharge and floodwater control. Furthermore, it would be interesting to quantify the contribution of nature and agricultural-based tourism and recreational opportunities. Also, how much do secondary industries, such as food processing and lumber milling, depend on working lands? All of these contributions need to be considered by local officials in planning for future development in their municipality.

The citizens of Wicomico County elected to place a cap on the amount of annual tax increases. This will make it increasingly difficult for the county government to maintain the same level and quality of services. As the county continues to grow, it will be important to retain an appropriate balance of land uses in order to ensure fiscal stability.

It is hoped that the findings of this study will help community leaders and county residents evaluate one more piece of the puzzle: the demands for services in relation to tax revenues generated. The agricultural landscape has defined rural Wicomico County for generations. The future of its agriculture is in the county's hands; land use decisions made today will affect how the county grows in the future and whether it will be able to sustain its agricultural economy and rural character.