

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 936
Ways and Means

(Delegate McIntosh, *et al.*)

Budget and Taxation

**Baltimore City - Homestead Assessment Cap Increase and Property Tax Rate
Reduction - Study**

This bill requires the Department of Legislative Services (DLS) to complete a study on the feasibility and effects of increasing Baltimore City's Homestead Property Tax Credit cap on assessment increases and using the increased revenue to offset a reduction in Baltimore City's property tax rate. The study must estimate (1) the amount of reduction in Baltimore City's property tax rate that could be offset by various increases in the Homestead Property Tax Credit assessment cap and (2) the net impact on homeowners of increasing Baltimore City's Homestead Property Tax Credit assessment cap while decreasing the property tax rate. DLS must submit a report of its findings and any recommendations to the Mayor and City Council of Baltimore City, as well as to the Baltimore City House Delegation and the Baltimore City Senators by December 31, 2014.

The bill takes effect June 1, 2014, and terminates June 30, 2015.

Fiscal Summary

State Effect: None. DLS can complete the study and handle the reporting requirements with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The study must consider (1) the significance of the Homestead Property Tax Credit assessment cap as a revenue stabilization mechanism and the effect raising the cap would have on revenue stabilization and (2) revenue stabilization mechanisms that could be utilized in lieu of the Homestead Property Tax Credit assessment cap, such as a requirement that a portion of the increased revenue attributable to an increase in the cap be allocated to a revenue stabilization fund. During the study, the State Department of Assessments and Taxation and the Baltimore City Department of Finance must provide promptly any information that DLS requests and otherwise cooperate fully with DLS.

Current Law: Baltimore City's real property tax rate is \$2.248 per \$100 of assessment for fiscal 2014. The Baltimore City Homestead Tax Credit assessment cap is set at 4% for fiscal 2014 and 2015.

Background: The Homestead Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or "cap" in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to set their caps between 0% and 10%.

A majority of local subdivisions have assessment caps below 10%: 21 counties in fiscal 2013, 2014, and 2015. **Exhibit 1** lists county assessment caps for fiscal 2013 through 2015.

The Homestead Tax Credit Program is administered as follows:

- Increases in property assessments are equally spread out over three years. For example, if a property's assessment increased by \$120,000, from \$300,000 to \$420,000, the increase would be phased in through increments of \$40,000 annually for the next three years.
- If the assessment cap were set at 10%, however, the amount of assessment subject to taxes would increase by only \$30,000 in the first year, \$33,000 in the following year, and \$36,300 in the third year.
- Since the assessment cap was set lower than the actual market increase, the homeowner does not have to pay taxes on the property's full assessed value.

Exhibit 1
County Assessment Caps Under Homestead Tax Credit Program

County	FY 2013	FY 2014	FY 2015
Allegany	7%	7%	7%
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Calvert	10%	10%	10%
Caroline	5%	5%	5%
Carroll	5%	5%	5%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	5%	5%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	4%	2%	2%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	5%	5%	5%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation; Department of Legislative Services

The extent to which the Homestead Tax Credit Program may actually restrict the ability of a county to raise property tax revenues depends on the county's need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit. **Exhibits 2** and **3** show the impact that assessments caps have had on each county's assessable base and local property tax revenues. As shown, Baltimore City's 4% assessment cap reduces the City's assessable base by approximately \$3 billion

(9.1% of the assessable base) in fiscal 2014, thereby resulting in approximately \$66.4 million in foregone property tax revenue.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2014
ncs/hlb Revised - House Third Reader - March 19, 2014

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Exhibit 2
Estimated Assessable Base Loss Due to Homestead Property Tax Credit
Fiscal 2014
(\$ in Thousands)

County	Total County Assessable Base	Loss Due to 10% Homestead Cap	After 10% Homestead Cap	Percent Lost	Loss Due to Actual Homestead Cap	After Actual Homestead Cap	Percent Lost
Allegany	\$3,579,448	\$5,924	\$3,573,524	0.2%	\$16,430	\$3,563,018	0.5%
Anne Arundel	73,865,355	68,273	73,797,082	0.1%	10,418,753	63,446,602	14.1%
Baltimore City	32,548,629	572,484	31,976,145	1.8%	2,954,215	29,594,414	9.1%
Baltimore	75,469,078	26,210	75,442,868	0.0%	3,154,084	72,314,994	4.2%
Calvert	11,334,235	5,364	11,328,871	0.0%	5,364	11,328,871	0.0%
Caroline	2,550,357	4,484	2,545,873	0.2%	37,553	2,512,804	1.5%
Carroll	17,999,418	2,505	17,996,913	0.0%	62,040	17,937,378	0.3%
Cecil	9,280,440	1,940	9,278,500	0.0%	5,015	9,275,425	0.1%
Charles	15,414,254	4,121	15,410,133	0.0%	22,567	15,391,687	0.1%
Dorchester	2,861,600	4,836	2,856,764	0.2%	54,907	2,806,693	1.9%
Frederick	25,433,656	10,971	25,422,685	0.0%	84,530	25,349,126	0.3%
Garrett	4,621,273	7,418	4,613,855	0.2%	86,732	4,534,541	1.9%
Harford	25,569,637	2,784	25,566,853	0.0%	17,601	25,552,036	0.1%
Howard	42,755,118	4,392	42,750,726	0.0%	1,125,312	41,629,806	2.6%
Kent	2,976,520	16,038	2,960,482	0.5%	142,073	2,834,447	4.8%
Montgomery	161,008,847	117,012	160,891,835	0.1%	117,012	160,891,835	0.1%
Prince George's	73,074,771	18,024	73,056,747	0.0%	2,836,494	70,238,277	3.9%
Queen Anne's	7,636,884	8,785	7,628,099	0.1%	206,396	7,430,488	2.7%
St. Mary's	11,806,248	19,258	11,786,990	0.2%	402,004	11,404,244	3.4%
Somerset	1,417,905	3,786	1,414,119	0.3%	3,786	1,414,119	0.3%
Talbot	8,789,477	13,663	8,775,814	0.2%	1,725,579	7,063,898	19.6%
Washington	11,906,479	3,039	11,903,440	0.0%	45,177	11,861,302	0.4%
Wicomico	5,832,822	2,382	5,830,440	0.0%	4,726	5,828,096	0.1%
Worcester	14,526,197	9,337	14,516,860	0.1%	298,119	14,228,078	2.1%
Total	\$642,258,648	\$933,030	\$641,325,618	0.1%	\$23,826,469	\$618,432,179	3.7%

Source: State Department of Assessments and Taxation

Exhibit 3
County Tax Relief Due to Homestead Tax Credits

County	Fiscal 2013		Fiscal 2014		Fiscal 2015	
	Revenue Foregone	Percent of Base	Revenue Foregone	Percent of Base	Revenue Foregone	Percent of Base
Allegany	\$326,614	0.9%	\$161,014	0.5%	\$92,032	0.3%
Anne Arundel	113,812,811	16.4%	98,978,154	14.1%	93,088,961	13.1%
Baltimore City	94,695,124	12.6%	66,410,753	9.1%	56,748,400	7.7%
Baltimore	64,413,338	7.5%	34,694,924	4.2%	20,493,066	2.5%
Calvert	168,401	0.2%	47,847	0.0%	13,915	0.0%
Caroline	841,459	3.5%	352,998	1.5%	202,805	0.9%
Carroll	1,781,103	1.0%	631,567	0.3%	242,885	0.1%
Cecil	175,176	0.2%	49,684	0.1%	29,265	0.0%
Charles	527,744	0.3%	271,932	0.1%	130,622	0.1%
Dorchester	1,171,668	4.0%	535,892	1.9%	339,453	1.2%
Frederick	2,214,886	0.8%	899,399	0.3%	561,068	0.2%
Garrett	1,174,269	2.6%	858,647	1.9%	428,403	1.0%
Harford	519,989	0.2%	183,402	0.1%	110,890	0.0%
Howard	22,991,919	4.6%	13,391,213	2.6%	8,722,272	1.7%
Kent	1,990,509	6.4%	1,451,986	4.8%	1,007,222	3.4%
Montgomery	2,346,539	0.1%	1,194,693	0.1%	1,015,824	0.1%
Prince George's	70,833,993	7.0%	37,413,356	3.9%	33,794,851	3.5%
Queen Anne's	3,406,655	5.0%	1,748,381	2.7%	1,071,810	1.7%
St. Mary's	6,103,443	6.0%	3,445,174	3.4%	2,052,875	2.0%
Somerset	83,863	0.7%	34,642	0.3%	16,616	0.1%
Talbot	10,095,790	22.2%	8,834,964	19.6%	7,948,088	18.4%
Washington	1,632,551	1.4%	428,278	0.4%	227,255	0.2%
Wicomico	106,042	0.2%	42,940	0.1%	31,955	0.1%
Worcester	4,009,236	3.4%	2,295,516	2.1%	1,590,535	1.5%
Statewide	\$405,423,121	5.3%	\$274,357,357	3.7%	\$229,961,067	3.1%

Source: State Department of Assessments and Taxation