

Department of Legislative Services
 Maryland General Assembly
 2021 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1290 (Delegate Amprey)
 Ways and Means

State Department of Assessments and Taxation – Real Property Assessments and Appeals

This bill alters the real property valuation and appeals process used by the State Department of Assessments and Taxation (SDAT).

Fiscal Summary

State Effect: General fund expenditures increase by \$47.8 million in FY 2022 and by \$61.1 million in FY 2026. Special fund revenues and expenditures increase by \$35.8 million in FY 2022 and by \$45.6 million in FY 2026. Future years reflect inflation and annualization. State property tax revenues may increase or decrease as a result of new property assessment procedures.

(\$ in millions)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
SF Revenue	\$35.8	\$41.4	\$42.6	\$44.1	\$45.6
GF Expenditure	\$47.8	\$55.6	\$57.2	\$59.1	\$61.1
SF Expenditure	\$35.8	\$41.4	\$42.6	\$44.1	\$45.6
Net Effect	(\$47.8)	(\$55.6)	(\$57.2)	(\$59.1)	(\$61.1)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local expenditures increase by \$35.8 million in FY 2022 and by \$45.6 million in FY 2026 due to the reimbursement for increased assessment costs at SDAT. Local property tax revenues may increase or decrease as a result of new property assessment procedures.

Small Business Effect: Potential meaningful. Small businesses may end up paying more or less in property taxes depending on future property assessments.

Analysis

Bill Summary: When determining the value of real property, SDAT must (1) conform to the “Real Property Valuation Guidelines” issued by the Internal Revenue Service (IRS) under Part 4 of the Internal Revenue Manual; (2) consider the appropriateness of the valuation with respect to the specific property and the quantity, veracity, and reliability of the data supporting the valuation; and (3) provide a logical and reasoned explanation of the valuation and the reliability of the valuation, including a reasonable justification for approaches taken or not taken in making the determination.

The bill authorizes an appeal authority to consider the following criteria in making its final decision in hearing an appeal that relates to the value of real property: (1) the fair market value of the real property; (2) the valuation and assessment methodology employed by the assessor; (3) depreciation factors; (4) the assessment value of comparable properties; or (5) any other criteria related to the valuation and assessment of real property.

The bill also alters one of the criteria used to require a revaluation of real property by decreasing from \$100,000 to \$50,000 the value of substantially completed improvements or renovations that are made.

Finally, the bill requires SDAT to publish on the department’s website a plain language description of the following: (1) the methodology applied in the valuation and assessment process; (2) any adjustments in value that an assessor is authorized to make; (3) the criteria used to determine the depreciation value of real property; (4) the circumstances under which the department must revalue real property in any year of a three-year cycle; and (5) any other factors relevant to the valuation of real property by the department.

Current Law: Real property is valued and assessed by SDAT once every three years. Prior to June 1, 2018, statute required that assessments be based on a physical inspection; however, Chapter 651 of 2018 repealed the requirement that SDAT value all real property based on an exterior physical inspection of the real property. Instead, the department must value real property based on a review of each property in each three-year cycle. The review by the department must include a physical inspection of a property if (1) the value of improvements to the property is being initially established; (2) the value of substantially completed improvements is being established; (3) the property is the subject of a recent sale, and the inspection is deemed necessary by the department for purposes of market analysis; (4) the property owner requests a physical inspection as part of an active appeal; (5) the department is notified by a county finance officer that a substantially completed improvement has been made that adds at least \$1.0 million in value to the property; or (6) the department determines that a physical inspection is appropriate.

In any year of a three-year cycle, real property must be revalued if any of the following factors causes a change in the value of the real property: (1) the zoning classification is changed at the initiative of the owner or anyone having an interest in the property; (2) a change in use or character occurs; (3) substantially completed improvements are made that add at least \$100,000 in value to the property; (4) an error in calculation or measurement of the real property caused the value to be erroneous; (5) a residential use assessment is terminated; or (6) a subdivision occurs.

State Fiscal Effect: SDAT reports that the bill will eliminate the department's ability to use mass property assessment techniques authorized by Chapter 651 and require a physical appraisal of each property during each assessment cycle. In order to meet the federal guidelines required by the bill as well as requirements for documenting improvements or renovations of at least \$50,000, the department advises that each property assessment will now have to be a full appraisal with pictures verifying any improvements.

The department reports that it currently utilizes mass appraisal techniques based on International Association of Assessing Officers guidelines. According to SDAT, these guidelines are used in every state as well as in many counties, cities, and towns in the country to perform real property assessments.

The fiscal 2022 State budget includes \$33.6 million for SDAT's Real Property Valuation program, which includes funding for 394 authorized positions. Of these positions, 122 are for residential valuation, including assessors, assessor supervisors, and assessor team managers. After time used for processing appeals and inspecting and valuing newly constructed buildings, each assessor has approximately 119 work days to spend on reassessing real property accounts. On average, there are 742,808 residential properties that need to be valued each year. As a result, each assessor values approximately 51 properties per day or spends approximately 10 minutes per property utilizing the mass appraisal approach. The department notes that this includes the time spent performing field inspections of the property if there is a current building permit for the property, verifying sales data for each property that has transferred in the most recent three-year period, updating the computerized assessment data system, performing sales analysis, and verifying that all statistical data metrics are met.

In order to comply with IRS Real Property Guidelines, as required by the bill, the department advises that an individual physical appraisal would be required for each of the 742,808 residential properties valued each year. The department notes that private-fee appraisers can normally complete 5 to 10 residential property appraisals per work week for an average of 1.5 per day. SDAT reports that if the number of appraisals conducted by each assessor each day was tripled (to 4.5), the department would need approximately 1,200 new assessors to complete 742,808 reassessments conducted each year.

As a result, SDAT advises that State expenditures would increase by \$71.5 million in fiscal 2022, which accounts for the bill's October 1, 2021 effective date. This estimate reflects the cost of hiring 1,195 assessors, 5 program managers, 20 assistant county supervisors, and 45 assessment office managers to perform real property appraisals, handle department level appeals, and otherwise comply with the bill's requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

County governments would be responsible for reimbursing the State for 50% of these additional costs, or \$35.8 million in fiscal 2022 and \$45.6 million in fiscal 2026.

The Property Tax Assessment Appeals Board (PTAAB) indicates that general fund expenditures increase by \$12.0 million in fiscal 2022, which accounts for the bill's October 1, 2021 effective date. This estimate reflects the cost of hiring 200 new board members (\$30 per hour for 1,750 hours each) and 50 office secretaries to hear and process property tax appeals under the new guidelines as well as for additional office space for the new employees and board members.

Future year expenditures for both SDAT and PTAAB reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

State property tax revenues may increase or decrease as a result of new property assessment procedures.

Local Fiscal Effect: County governments must reimburse SDAT for 50% of real property assessment costs. As a result, local expenditures increase by \$35.8 million in fiscal 2022 and by \$45.6 million in fiscal 2026.

Local property tax revenues may increase or decrease as a result of new property assessment procedures.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 782 (Senator Hayes) - Budget and Taxation.

Information Source(s): Anne Arundel, Frederick, and Montgomery counties; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

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