Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 174 (Chair, Budget and Taxation Committee)(By Request - Departmental - Assessments and Taxation)

Budget and Taxation

Property Tax Assessments – 5–Year Assessment Cycle

This departmental bill changes the State's three-year cycle for the assessment of real property to a five-year cycle whereby the State Department of Assessments and Taxation (SDAT) will be required to assess real property once every five years instead of every three years.

Fiscal Summary

State Effect: State expenditures may decrease by approximately $320,000 in FY 2022. These cost savings are shared by the State and local governments. As a result, general fund expenditures decrease by $160,000 and special fund expenditures from local government reimbursements decrease by $160,000. Special fund revenues from local government reimbursements decrease by $160,000. The impact in future years reflect annualization and inflation. Potential decrease in State property tax revenues as discussed below.

Local Effect: Local government expenditures decrease by $160,000 in FY 2022. Potential decrease in local property tax revenues as discussed below.

Small Business Effect: SDAT has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services generally concurs with this assessment; however, in years with relatively high assessment increases, it is likely that small businesses will benefit from reduced property tax payments.

Analysis

Current Law: Real property is valued and assessed once every three years. This approach, the triennial assessment process, was part of major property tax reform established in 1979. Under this process, assessors from SDAT value each property every three years. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; (4) a prior erroneous assessment; (5) a residential use assessment is terminated; or (6) a subdivision occurs. The assessor determines the current "full market value" of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

A comprehensive overview on the property tax assessment process in Maryland can be found in Chapter 1 of the *Guide to the Property Tax Structure in Maryland*.

Background: In Maryland, there are more than two million real property accounts. Currently, SDAT must assess each of these properties once every three years, resulting in over 700,000 property reassessments annually. Altering the assessment process to a five-year cycle will reduce the number of properties being reassessed to approximately 400,000 each year. SDAT reports that the department's real property program faces high turnover in entry-level positions and competitive salaries throughout the region, which has resulted in difficulties retaining employees for several years. The recent complications due to the COVID-19 pandemic have made it even more challenging to recruit new assessors and remain competitive with other organizations.

Board of Public Works Reductions

SDAT indicates that 10 positions were eliminated from the real property program by the Board of Public Works (BPW) in fiscal 2021. These positions included 7 assessors and 3 office service clerks. With other operational reductions, the program lost a total of $706,276 in fiscal 2021, of which $353,138 was general funds and $353,138 was special funds from local government reimbursements.

State and Local Fiscal Effect: Increasing the assessment cycle to every five years will allow SDAT to meet statutory deadlines with reduced staffing. The department intends to eliminate 1 assessor position in each of the five largest counties. These reductions are on top of the 10 positions that were eliminated in fiscal 2021 due to mid-year reductions by BPW. Accordingly, State expenditures may decrease by approximately $320,000 in fiscal 2022. These cost savings are shared by the State and local governments. As a result, general fund expenditures decrease by $160,000 and special fund expenditures from local government reimbursements decrease by $160,000. Future year expenditure decreases will reflect annualization and inflation.

Extending the assessment cycle by two years may impact the overall growth in the State and county assessable base which is used for property tax purposes. Several local governments have raised the concern that a five-year assessment cycle will increase the inequality of assessments and decrease the degree of accuracy of the assessment in later years as housing market conditions change. For example, Montgomery County indicates that property assessments under a five-year cycle would not be as accurate because current sales data used in the reassessment process would not be considered, resulting in a considerable lag time for values to be uniform throughout the county. Anne Arundel County echoed these concerns by indicating that an extended assessment cycle could result in a lag in properties being properly assessed which could have an effect on the distribution of the tax burden in the county. The Maryland Association of Counties indicates that moving to a five-year assessment cycle will make property assessments less reflective of current market conditions which in turn will result in less overall property tax revenues.

The overall fiscal impact on State and local property tax revenues will depend on the overall housing market conditions in Maryland. As shown in **Exhibit 1**, the triennial change in the full cash value of property has ranged from a 13% decrease in 2012 when Group 3 properties were reassessed to a 10.9% increase in 2016 when Group 1 properties were reassessed. The concerns raised by local officials are illustrated by assessment data for Group 3 in 2012 and 2015. Property assessments in Group 3 decreased by 13% in 2012; with the assessments rebounding in 2015. However, under the proposed five-year assessment cycle, Group 3 properties would not be reassessed until 2017, which would have delayed the assessment rebound by two years, resulting in a reduction in local property tax revenues.

More recently, increases in property assessments have been more constant. For example, Group 3 properties realized a 7.7% increase in 2018 and an 8.1% increase in 2021, which represents a 2.6% average increase over the six-year period. For the two other groups, Group 1 realized a 3.3% average increase over a six-year period and Group 2 realized a 2.85% increase. Under these market conditions, extending the assessment cycle by two years will have less of an impact on State and local property tax revenues.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Anne Arundel County; Montgomery County; Maryland Association of Counties; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 26, 2021
rh/hlb

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Triennial Change in Full Cash Value
January 2012-January 2021

County	2012 Group 3	2013 Group 1	2014 Group 2	2015 Group 3	2016 Group 1	2017 Group 2	2018 Group 3	2019 Group 1	2020 Group 2	2021 Group 3
Allegany	-5.3%	-2.4%	-2.8%	-0.4%	1.3%	-0.2%	0.4%	2.4%	3.2%	5.2%
Anne Arundel	-12.6%	-1.9%	9.9%	10.8%	11.5%	12.4%	8.9%	7.9%	10.8%	6.0%
Baltimore City	-6.8%	-3.1%	7.0%	9.6%	10.9%	6.2%	3.6%	8.4%	9.1%	4.1%
Baltimore	-14.5%	-8.1%	1.2%	6.4%	12.4%	8.5%	6.6%	10.9%	8.1%	7.2%
Calvert	-16.1%	-11.4%	-2.9%	0.8%	3.9%	3.8%	4.0%	7.0%	7.4%	7.0%
Caroline	-18.9%	-15.7%	-3.6%	-2.8%	0.5%	-0.8%	7.0%	11.5%	6.8%	8.9%
Carroll	-15.4%	-3.8%	-3.0%	4.1%	6.0%	5.3%	7.1%	8.0%	6.2%	7.8%
Cecil	-15.4%	-10.4%	-2.3%	3.9%	1.1%	6.1%	6.0%	9.5%	9.2%	5.8%
Charles	-15.2%	-6.8%	-4.2%	3.3%	12.4%	8.3%	5.6%	12.2%	7.3%	8.6%
Dorchester	-10.8%	-11.7%	-7.9%	-0.8%	-1.4%	2.1%	-5.1%	7.6%	7.9%	5.0%
Frederick	-18.8%	-2.2%	4.0%	11.2%	9.3%	6.3%	6.2%	10.0%	9.8%	11.0%
Garrett	-14.7%	-3.6%	-14.0%	-2.8%	1.5%	0.1%	0.2%	3.7%	4.0%	7.1%
Harford	-5.8%	-6.5%	1.6%	3.1%	3.2%	6.0%	4.5%	5.8%	5.6%	6.3%
Howard	-8.7%	2.5%	8.1%	10.5%	9.0%	6.1%	5.9%	8.5%	8.3%	9.3%
Kent	-9.0%	-6.0%	-5.5%	-0.7%	-1.6%	-0.2%	2.2%	2.3%	1.6%	4.3%
Montgomery	-8.6%	4.1%	11.0%	18.7%	11.1%	7.8%	8.4%	6.9%	7.6%	9.2%
Prince George’s	-24.8%	-10.6%	5.3%	19.5%	24.7%	13.5%	17.5%	16.8%	13.3%	13.4%
Queen Anne’s	-13.7%	-9.0%	-10.3%	1.2%	7.7%	3.6%	8.6%	3.8%	6.9%	3.0%
St. Mary’s	-9.6%	-7.9%	-2.2%	1.5%	0.8%	0.5%	2.2%	6.2%	6.9%	9.4%
Somerset	-20.6%	-11.5%	-13.3%	3.1%	-5.2%	-6.4%	0.5%	0.9%	1.2%	5.4%
Talbot	-15.3%	-11.5%	-11.4%	-7.1%	1.7%	-0.5%	-1.6%	3.9%	5.6%	2.4%
Washington	-9.0%	-6.9%	-3.0%	5.5%	4.3%	2.2%	4.0%	6.6%	6.2%	6.8%
Wicomico	-20.2%	-17.4%	-6.2%	2.6%	3.5%	6.4%	6.0%	11.0%	11.2%	10.1%
Worcester	-17.4%	-14.3%	-7.8%	2.2%	9.4%	4.1%	4.3%	9.4%	4.7%	2.1%
Statewide	**-13.0%**	**-3.6%**	**4.7%**	**10.8%**	**10.9%**	**8.2%**	**7.7%**	**9.1%**	**8.9%**	**8.1%**

Source: State Department of Assessments and Taxation

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: **Property Tax Assessments – 5–Year Assessment Cycle**

BILL NUMBER: SB 174

PREPARED BY: **Jason Davidson**, 410-767-5754, Jason.davidson2@maryland.gov

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The Department will save an additional $159,934 in General Funds in Fiscal Year 2022. The proposed legislation will save $159,934 in the counties' share of cost for running the Real Property program.