

E50C
State Department of Assessments and Taxation

Operating Budget Data

(\$ in Thousands)

	<u>FY 11</u> <u>Actual</u>	<u>FY 12</u> <u>Working</u>	<u>FY 13</u> <u>Allowance</u>	<u>FY 12-13</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$117,859	\$87,138	\$90,288	\$3,151	3.6%
Adjusted General Fund	\$117,859	\$87,138	\$90,288	\$3,151	3.6%
Special Fund	5,311	40,383	40,975	591	1.5%
Adjusted Special Fund	\$5,311	\$40,383	\$40,975	\$591	1.5%
Reimbursable Fund	3,821	105	0	-105	-100.0%
Adjusted Reimbursable Fund	\$3,821	\$105	\$0	-\$105	-100.0%
Adjusted Grand Total	\$126,990	\$127,625	\$131,263	\$3,637	2.8%

- Deficiency appropriations withdraw special funds totaling \$473,102 and replace them with an equal amount of general funds in order to ensure the 10% general funds/90% special fund split required by Chapter 397 of 2011. Additionally, general funds totaling \$2,417,000 are added to compensate local governments for the cost of providing the Homeowners' Tax Credit.
- The fiscal 2013 allowance for the State Department of Assessments and Taxation (SDAT) increases by \$3.6 million (2.8%) over the current year working appropriation. The majority of the increase (\$3.2 million) occurs in general funds, with a smaller increase occurring in special funds (\$591,000). Reimbursable funds related to an information technology project are removed in the allowance, a decrease of \$105,000.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>
Regular Positions	589.00	582.00	582.00	0.00
Contractual FTEs	<u>2.50</u>	<u>5.20</u>	<u>3.40</u>	<u>-1.80</u>
Total Personnel	591.50	587.20	585.40	-1.80

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	24.85	4.27%
Positions and Percentage Vacant as of 12/31/11	57.00	9.79%

- The number of regular positions remains unchanged between the current year working appropriation and the allowance. Contractual full-time equivalents decrease by 1.8.
- The budgeted turnover in the fiscal 2013 allowance is 4.27%, which translates into the need to keep nearly 25.0 positions vacant for the entire year. As of December 31, 2011, SDAT had 57.0 positions vacant for a vacancy rate of 9.79%, which means there is sufficient funding in SDAT’s salary account to hire an additional 32.0 positions.

Analysis in Brief

Major Trends

Assessment Values Are within the Acceptable Range: The department's accuracy measures for assessments are within acceptable ranges as determined by industry standards.

Issues

Property Valuation and Tax Credit Errors Pose Challenges: Recent press articles have highlighted errors in property valuation and tax credit calculations that need to be addressed.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Homestead Tax Credit Program: The final deadline for filing Homestead Tax Credit applications is December 31, 2012. SDAT is sending a separate, second Homestead Tax Credit application to homeowners in the only group of properties assessed on the three-year cycle that did not receive a second application as part of the regular assessment notification process.

E50C
State Department of Assessments and Taxation

Operating Budget Analysis

Program Description

The State Department of Assessments and Taxation (SDAT) supervises the assessment of all property in the State. The department performs assessments on one-third of all real property and all personal property in the State every year and certifies to the local taxing authorities the assessment of every piece of property. The department also administers four tax credit programs: the Homeowners' Property Tax Credit Program, the Renters' Tax Credit Program, the Base Realignment and Closure Revitalization (BRAC) and Incentive Zone Tax Credit Program; and the Urban Enterprise Zone Tax Credit Program. The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The BRAC zone program provides tax-related financial incentives to local governments by providing State support for property tax increases on qualifying properties located in BRAC zones. The enterprise zone program reimburses local governments for property tax credits given to businesses which are located in, or expand into, enterprise zones. The department collects public service franchise taxes and assesses all public utility companies in the State. It also serves as the filing place for businesses operating in the State. The department registers companies, corporations, and partnerships in Maryland and generates certificates and certified documents. The various forms that businesses must file with the department are available to the public for inspection.

The goals of the department are to:

- provide a consistently accurate property valuation system;
- run efficient and effective programs for property tax relief and business services; and
- operate convenient and professional facilities.

Performance Analysis: Managing for Results

Fiscal 2011 Assessment Values Are within the Acceptable Assessment-to-sales Ratio

Property assessments are a sensitive and sometimes volatile issue for property owners. SDAT strives to provide accurate and fair assessments. SDAT measures appraisal accuracy as the degree to which properties are appraised at market value, as defined by professional standards published by the International Association of Assessing Officers (IAAO). There are three measures as detailed below.

The assessment-to-sales ratio (ASR) is a ratio of the assessed value to the sales price of the property. The closer the ratio is to 100%, the closer the assessment is to the sales price. A ratio over 100% indicates assessments were higher, and a ratio under 100% indicates assessments were lower than

market values. The IAAO range for acceptable performance for the ASR is 90 to 110%. SDAT strives to be within 95 to 105%. As illustrated in **Exhibit 1**, the department’s fiscal 2011 ASR of 90% was within the range of the national benchmark.

Exhibit 1
Accuracy Measures
State Department of Assessments and Taxation
Fiscal 2007-2013

<u>Measure</u>	<u>Goal</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Est.</u> <u>2012</u>	<u>Est.</u> <u>2013</u>
Assessment-to-sales ratio	95-105%	89.5%	96.2%	94.0%	95.0%	90.0%	90.0%	90.0%
Coefficient of dispersion	=< 15.00	11.00	11.00	9.42	10.00	10.00	10.00	10.00
Price-related differential	.98-1.03	1.00	1.01	1.01	1.00	1.00	1.00	1.00

Source: State Department of Assessments and Taxation

The department is also performing within its goals for the remaining two measures. The coefficient of dispersion (COD) measures how close individual ASRs are to the median ASR for an area. A large COD indicates a wide range of assessment values in a particular area. The lower the COD, the more closely the ASRs are to the median ASR value; a COD under 15 is considered reasonable. The third measure is the price-related differential (PRD). The PRD measures bias in the ASR. A bias is when the assessments for the assessed properties are higher or lower than they should be, based on the ASR. The ideal PRD is 1, indicating unbiased assessments. A PRD in excess of 1 indicates underestimated appraisals for high dollar properties, and a PRD less than 1 indicates underestimated appraisals for low dollar properties.

Fiscal 2012 Actions

Proposed Deficiency

Chapter 397 of 2011, the Budget Reconciliation and Financing Act of 2011, required the counties and Baltimore City to reimburse SDAT for 90% of property valuation costs. Deficiency appropriations withdraw special funds totaling \$473,102 and replace them with an equal amount of general funds in order to ensure the 10% general funds/90% special fund split required under legislation. Additionally, general funds totaling \$2,417,000 are added to compensate local governments for the cost of providing the Homeowners’ Tax Credit.

Proposed Budget

As shown in **Exhibit 2**, the fiscal 2013 allowance for SDAT increases \$3.6 million over the current year working appropriation. Personnel expenses increase by a net \$76,000, with increases for employee and retiree health, retirement contributions, and decreased turnover partially offset by decreases resulting from the absence of funds for employee bonuses, reduced reclassifications, and the annualization of positions reduced through the Voluntary Separation Program.

Tax credit programs account for the majority of increase in the fiscal 2013 budget, increasing by \$2.5 million over the current year. Changes in information technology lead to a net increase of \$541,000 and statewide cost allocations add an additional \$391,000 over the current year.

Exhibit 2
Proposed Budget
Department of Assessments and Taxation
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2012 Working Appropriation	\$87,138	\$40,383	\$105	\$127,625
2013 Allowance	<u>90,288</u>	<u>40,975</u>	<u>0</u>	<u>131,263</u>
Amount Change	\$3,151	\$591	-\$105	\$3,637
Percent Change	3.6%	1.5%	-100.0%	2.8%
Contingent Reductions	\$0	\$0	\$0	\$0
Adjusted Change	\$3,151	\$591	-\$105	\$3,637
Adjusted Percent Change	3.6%	1.5%	-100.0%	2.8%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance.....	\$685
Retirement contributions.....	513
Decreased turnover.....	424
Workers' compensation premium assessment.....	70
Overtime, accrued leave payout, reclassifications.....	-253
Remove employee bonuses.....	-420
Annualization of Voluntary Separation Program, and rebasing of vacant positions.....	-899
Other fringe benefit adjustments.....	-44

E50C – State Department of Assessments and Taxation

Where It Goes:

Tax Credit Programs

Homeowners' Tax Credits	3,217
BRAC Revitalization and Incentive Zone Tax Credits	350
Enterprise Zone Tax Credits	-219
Renters' Tax Credits	-800

Information Technology

Maintenance costs for new IT system	1,488
Specialized property valuation software	100
Remove development costs for new IT system.....	-1,047

Cost Allocations

Statewide personnel system allocation.....	271
DoIT IT services allocation.....	88
Retirement administrative fee	73
Attorney General administrative fee	8
DBM paid telecommunications.....	-49

Other..... 83

Total **\$3,637**

BRAC: Base Realignment and Closure
DBM: Department of Budget and Management
DoIT: Department of Information Technology
IT: information technology

Note: Numbers may not sum to total due to rounding.

Tax Credit Programs

As shown in **Exhibit 3**, the fiscal 2013 allowance for the tax credit programs increases by a net \$2.5 million, with increases in the Homeowners' and BRAC tax credit programs partially offset by reductions in the Renters' and Urban Enterprise Zone tax credit programs. If the \$2.4 million fiscal 2012 deficiency for the Homeowners' Tax Credit Program is included, the fiscal 2013 increase falls to \$130,518.

Exhibit 3
Tax Credit Payments
Fiscal 2011-2013

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Allowance</u>	<u>2012-13</u> <u>Change</u>
Homeowners' Tax Credit Program	\$58,035,573	\$56,783,000	\$60,000,000	\$3,217,000
Renters' Tax Credit Program	2,443,210	3,200,000	2,400,000	-800,000
Urban Enterprise Tax Credit Program	15,193,631	19,030,000	18,810,518	-219,482
BRAC Revitalization and Incentive Zone Tax Credit Program	225,197	400,000	750,000	350,000
Total Tax Credit Payments	\$75,897,611	\$79,413,000	\$81,960,518	\$2,547,518

BRAC: Base Realignment and Closure

Source: Maryland State Budget; Department of Legislative Services

Homeowners' and Renters' Tax Credit Programs

The Homeowners' Tax Credit Program provides credits against State and local real property taxes for homeowners who qualify based on a sliding scale of property tax liability and income. Similarly, the Renters' Tax Credit Program provides property tax credits to renters who meet certain income and familial requirements. The Renters' Tax Credit Program, which is modeled after the Homeowners' Tax Credit Program, is based on the concept that renters indirectly pay property taxes as a component of their rent and, therefore, should also benefit from the tax credit afforded to homeowners.

Exhibit 4 shows the number of eligible applications and the average credit for the Homeowners' and Renters' Tax Credit Programs for fiscal 2011 through 2013. Both the number of eligible applications and the average credit are projected to increase in fiscal 2012 and 2013 for the Homeowners' Tax Credit Program but decrease for the Renters' Tax Credit Program.

Exhibit 4
Homeowners' and Renters' Tax Credit Programs
Eligible Applications and Average Credit
Fiscal 2011-2013

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Estimate</u>	<u>2013</u> <u>Estimate</u>
Homeowners' Tax Credit Program			
Eligible Applications	50,950	51,612	52,280
Average Credit	\$1,091	\$1,147	\$1,148
Renters' Tax Credit Program			
Eligible Applications	8,388	7,928	7,493
Average Credit	\$291	\$404	\$320

Source: Maryland State Budget; Department of Legislative Services

Urban Enterprise Zone Tax Credit Program

The Urban Enterprise Zone Tax Credit Program provides property and income tax credits for businesses that locate or expand within designated areas. SDAT reimburses local governments for 50% of the property tax credit. The credit is based on the increased assessment from a base year either from rising assessments or from increases in value from renovations or capital improvements.

As shown in **Exhibit 5**, the number of participating businesses and the value of the tax credits are both projected to decrease between fiscal 2012 and 2013. The tax credits are awarded over a 10-year period, and SDAT advises that the decline in the number of participating businesses is due largely to expiring credits.

Exhibit 5
Enterprise Zone Property Tax Credit
Fiscal 2012-2013
(\$ in Thousands)

<u>Enterprise Zones</u>	2012		2013	
	<u>Number of Businesses</u>	<u>State's Share of Credit</u>	<u>Number of Businesses</u>	<u>State's Share of Credit</u>
Allegany	32	\$335	27	\$252
Baltimore City	350	10,866	325	11,822
Baltimore	49	770	44	708
Calvert	13	34	13	50
Cecil	21	950	23	954
Dorchester	15	55	15	69
Garrett	24	103	41	167
Harford	132	1,340	115	1,709
Montgomery	221	2,245	101	867
Prince George's	43	1,580	47	1355
St. Mary's	25	52	28	53
Somerset	2	8	3	10
Washington	41	525	46	486
Wicomico	53	158	45	166
Worcester	6	8	5	4
Reimbursement to Late Claimants				139
Total	1,027	\$19,030	878	\$18,811

Source: State Department of Assessments and Taxation

BRAC Revitalization and Incentive Zones Credit Program

Chapter 338 of 2008, amended by Chapter 728 of 2009, created financial incentives for local subdivisions with approved BRAC zones. The fiscal 2013 allowance includes \$750,000 for qualifying properties located in Anne Arundel, Frederick, and Harford counties.

Local Support for Property Valuation and Associated Information Technology Expenses

Chapter 397 of 2011, the Budget Reconciliation and Financing Act of 2011, requires the counties and Baltimore City to reimburse SDAT for (1) 90% of the costs of real property valuation; (2) 90% of the costs of business personal property valuation; and (3) 90% of costs incurred by SDAT with regards to information technology in fiscal 2012 and 2013. Beginning in fiscal 2014, the counties and Baltimore City are required to reimburse SDAT for 50% of these costs. For fiscal 2012, this requirement equates to \$34,337,886 (including the deficiency appropriation which reduces local funding by \$473,102 to maintain the 90/10 split). The fiscal 2013 allowance includes \$35,344,750 in local funding for an increase of \$1,006,864.

Issues

1. Property Valuation and Tax Credit Errors Pose Challenges

Recent press articles have highlighted errors in both property assessments and the application and calculation of Homestead Tax credits. Problems noted have included the undervaluation of properties that have increased in value due to extensive renovations, tax credit calculation errors, and application of property tax credits for ineligible properties or owners.

SDAT officials have noted that the department has insufficient personnel in its Property Valuation unit to physically inspect every property in the State every three years. Physical inspections can help avoid valuation errors. The number of authorized positions in SDAT's Property Valuation unit has declined steadily over the past decade falling from 548 positions in fiscal 2002 to 391 positions in fiscal 2012, a decline of over 28%. Additionally, for the past two years, the department has had an elevated vacancy rate with 45 positions vacant at the end of calendar 2010 (7.64%) and 57 positions vacant at the end of calendar 2011 (9.79%). Of the fiscal 2011 vacancies, 37 positions were in the Property Valuation unit.

With regard to the Homestead Tax Credit, SDAT has been engaged in a multi-year effort to ensure that only eligible properties receive the credit (see Update 1.) A total of 41,927 properties had credits removed between fiscal 2008 and 2010, which added \$1.7 billion to the State's taxable assessable base and \$2.3 billion to the counties' taxable assessable base. The higher county assessable base number reflects the greater value of the credits resulting from setting eligibility for the credit below the 10% property value increase used by the State.

Inasmuch as undervaluing property and improperly granting property tax credits deprive local governments of much needed revenue and erode the trust citizens have in their government, it is important that these issues be addressed quickly and effectively. **SDAT should brief the committees on the steps it is taking to reduce property valuation and tax credit errors.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Homestead Tax Credit Program

Since its inception in 1977, the fundamental purpose of the homestead property tax credit has been to limit the amount of property taxes paid by a residential homeowner due to property tax assessment increases. The credit was designed to provide a cumulative or year-over-year protection to longtime homeowners against significant appreciations in property values. Over the past decade, there has been a significant increase in the number of properties receiving the credit and the average amount of each credit. The increase in the number of recipients and the inability to verify eligibility prompted concern over potential abuses or fraud. In response to this concern, Chapters 564 and 565 of 2007 were enacted to require homeowners to apply to the department for the credit. No longer is the credit automatically applied against owners' assessments. All those seeking the credit must apply by December 31, 2012.

SDAT reports that as of January 17, 2012, it has received approximately 725,000 homestead credit applications statewide. This number represents approximately 90% of the statewide recipients of the homestead tax credit on their July 2011 property tax bill. During its most recent assessment cycle, SDAT mailed a second application to those homeowners who had not filed an application three years earlier with that group's reassessment notice. Only one of the three groups of properties being reassessed every three years will not receive a second Homestead application as part of their regular assessment notices before the absolute filing deadline of December 31, 2012. Therefore, SDAT is sending a second Homestead application to nonfiling homeowners in this group as a separate mailing in early 2012. Any homeowner not filing a Homestead application by December 31, 2012, will have his or her credit eligibility removed on the July 1, 2013 tax bill. However, should a homeowner subsequently file an application for the credit for the July 1, 2014 tax year, the credit will be calculated as if the credit had not been removed.

Current and Prior Year Budgets

Current and Prior Year Budgets State Department of Assessments and Taxation (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2011					
Legislative Appropriation	\$114,987	\$5,354	\$0	\$0	\$120,341
Deficiency Appropriation	3,234	0	0	0	3,234
Budget Amendments	0	0	0	4,254	4,254
Reversions and Cancellations	-363	-43	0	-433	-839
Actual Expenditures	\$117,859	\$5,311	\$0	\$3,821	\$126,990
Fiscal 2012					
Legislative Appropriation	\$89,664	\$5,043	\$0	\$0	\$94,707
Budget Amendments	364	34,867	0	105	35,335
Working Appropriation	\$90,028	\$39,910	\$0	\$105	\$130,042

Note: Numbers may not sum to total due to rounding.

Fiscal 2011

The fiscal 2011 budget for SDAT closed out \$6.6 million higher than the legislative appropriation. Deficiency appropriations added a total of \$3.2 million for the Homeowners' Tax Credit Program (\$2,425,398), to cover shortfalls in personnel expenses (\$733,901) and to supplement the appropriation to hire expert witnesses for ground rent litigation (\$75,000). A budget amendment also added reimbursable fund spending authority of \$4,253,643 to continue funding for development of the Assessment Administration and Valuation System. The funds for this project were budgeted in the Department of Information Technology. These increases were partially offset by year-end reversions and cancellations. Unspent general funds of \$362,994 reverted, and \$42,610 in special fund spending authorization and \$432,950 of the reimbursable fund spending authorization were cancelled.

Fiscal 2012

The fiscal 2012 working appropriation has increased by \$35.3 million over the legislative appropriation to reflect three changes. First, special funds totaling \$34,810,988 were added to reflect the local funding for SDAT operations required by Chapter 397 of 2011. Second, general funds in the amount of \$363,957 and special fund in the amount of \$55,683 were added for the one-time \$750 employee bonuses. Finally, reimbursable fund spending authority of \$104,772 was added to complete the Assessment Administration and Valuation System.

Object/Fund Difference Report
State Department of Assessments and Taxation

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	589.00	582.00	582.00	0.00	0%
02 Contractual	2.50	5.20	3.40	-1.80	-34.6%
Total Positions	591.50	587.20	585.40	-1.80	-0.3%
Objects					
01 Salaries and Wages	\$ 40,013,765	\$ 41,344,781	\$ 41,420,728	\$ 75,947	0.2%
02 Technical and Spec. Fees	83,258	56,200	123,956	67,756	120.6%
03 Communication	1,364,253	1,282,089	1,211,018	-71,071	-5.5%
04 Travel	444,971	220,650	183,750	-36,900	-16.7%
06 Fuel and Utilities	18,840	0	18,500	18,500	N/A
07 Motor Vehicles	71,129	9,151	56,976	47,825	522.6%
08 Contractual Services	6,804,669	3,207,946	4,235,568	1,027,622	32.0%
09 Supplies and Materials	249,403	157,180	157,180	0	0%
10 Equipment – Replacement	106,142	32,900	9,900	-23,000	-69.9%
11 Equipment – Additional	3,419	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	75,897,611	79,413,000	81,960,518	2,547,518	3.2%
13 Fixed Charges	1,932,909	1,901,573	1,884,448	-17,125	-0.9%
Total Objects	\$ 126,990,369	\$ 127,625,470	\$ 131,262,542	\$ 3,637,072	2.8%
Funds					
01 General Fund	\$ 117,858,519	\$ 87,137,503	\$ 90,288,036	\$ 3,150,533	3.6%
03 Special Fund	5,311,157	40,383,195	40,974,506	591,311	1.5%
09 Reimbursable Fund	3,820,693	104,772	0	-104,772	-100.0%
Total Funds	\$ 126,990,369	\$ 127,625,470	\$ 131,262,542	\$ 3,637,072	2.8%

Note: The fiscal 2012 appropriation does not include deficiencies.

Fiscal Summary
State Department of Assessments and Taxation

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
01 Office of the Director	\$ 2,376,912	\$ 2,732,319	\$ 2,584,514	-\$ 147,805	-5.4%
02 Real Property Valuation	31,383,552	31,252,217	31,694,379	442,162	1.4%
04 Office of Information Technology	3,054,508	2,583,788	4,173,129	1,589,341	61.5%
05 Business Property Valuation	3,321,663	3,269,480	3,404,424	134,944	4.1%
06 Tax Credit Payments	75,897,611	79,413,000	81,960,518	2,547,518	3.2%
08 Property Tax Credit Programs	2,537,707	2,457,534	2,524,276	66,742	2.7%
09 Major Information Technology Development Projects	3,820,693	1,047,722	0	-1,047,722	-100.0%
10 Charter Unit	4,597,723	4,869,410	4,921,302	51,892	1.1%
Total Expenditures	\$ 126,990,369	\$ 127,625,470	\$ 131,262,542	\$ 3,637,072	2.8%
General Fund	\$ 117,858,519	\$ 87,137,503	\$ 90,288,036	\$ 3,150,533	3.6%
Special Fund	5,311,157	40,383,195	40,974,506	591,311	1.5%
Total Appropriations	\$ 123,169,676	\$ 127,520,698	\$ 131,262,542	\$ 3,741,844	2.9%
Reimbursable Fund	\$ 3,820,693	\$ 104,772	\$ 0	-\$ 104,772	-100.0%
Total Funds	\$ 126,990,369	\$ 127,625,470	\$ 131,262,542	\$ 3,637,072	2.8%

Note: The fiscal 2012 appropriation does not include deficiencies.