

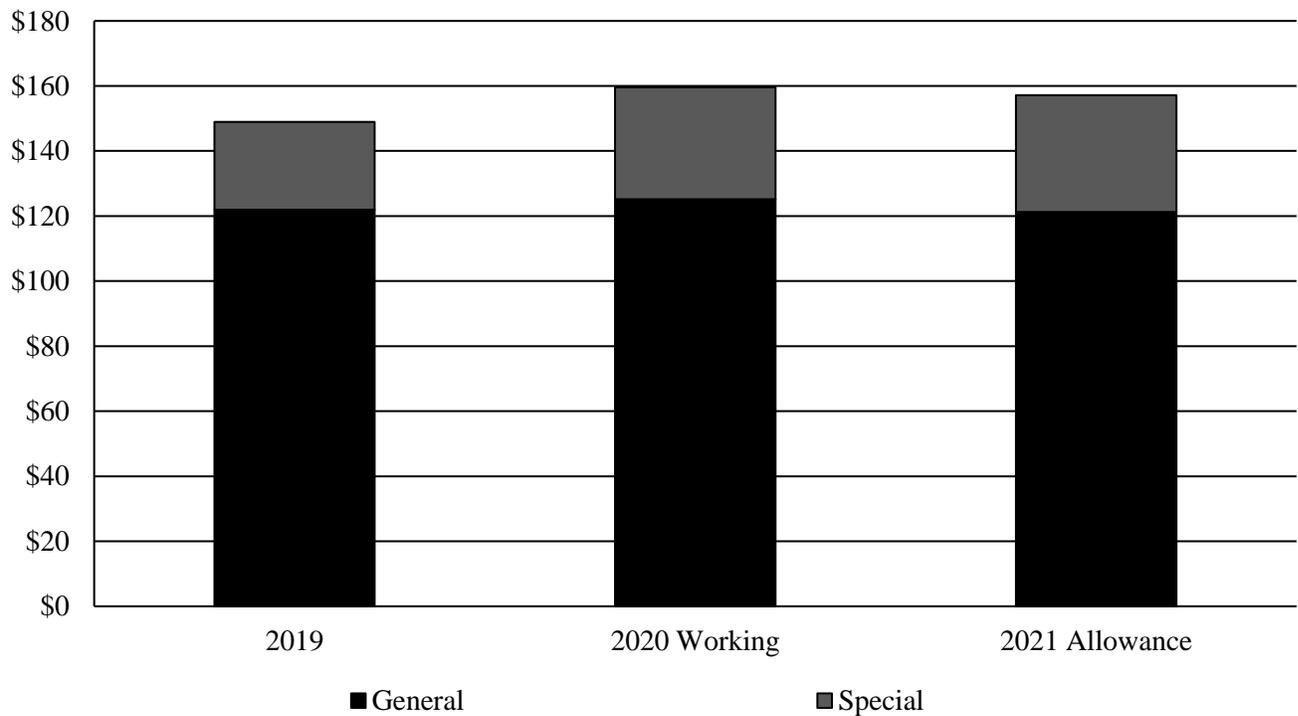
E50C
State Department of Assessments and Taxation

Executive Summary

The State Department of Assessments and Taxation (SDAT) is responsible for conducting property assessments statewide, administering property tax credit programs, and processing business filings in the State.

Operating Budget Summary

**Budget Decreases \$2.5 Million or 1.6% to \$157.1 Million in Fiscal 2021
(\$ in Millions)**



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

- The Governor’s budget plan includes a provision in the Budget Reconciliation and Financing Act of 2020. That would increase local jurisdictions’ contribution to SDAT operations from 50% to 60% of total costs, resulting in a contingent fund swap from general funds to special funds totaling \$4.4 million.

Key Observations

- ***Multiple SDAT Performance Measures Meet or Exceed Goals:*** SDAT performed well in a variety of its main areas. Overall, property tax assessment returns received remain fairly stable, SDAT property assessments are 95% accurate, and the agency’s customer service satisfaction rates grow from nearly 88% to 94%.
- ***New State Tax Sale Ombudsman Office:*** Chapter 730 of 2019 created the Office of the State Tax Sale Ombudsman. This new office will assist Maryland homeowners with the State tax sale process including how to apply for assistance, referring them to legal services, and educating residents about tax sales and how to redeem and reclaim their property if it is sold.
- ***Property Assessor Vacancies Remain High:*** As of the end of calendar 2019, SDAT has 81 vacancies, which is nearly twice what is needed to meet budgeted turnover for fiscal 2021. In January 2020, the agency released a report outlining challenges and successes in the most recent fiscal year. Most of the agency’s challenges are due to low salaries for these positions.
- ***Opportunity Zones Offer Tax Incentives for Investment in Low-income Communities:*** The federal Tax Cuts and Jobs Act of 2017 allows for opportunity zones in the State – areas with built-in tax incentives designed to increase investments in Maryland’s distressed communities. While the Department of Commerce will oversee the tax credit application process, SDAT will administer the payments for the program, which will be submitted by the counties.

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report on staffing in the Real Property Valuation Program.
2. Adopt committee narrative requesting a report on select property tax lien sale information per jurisdiction.

Updates

- ***Audit Resolution Nearly Complete:*** SDAT successfully resolved five of its six repeat audit findings. Currently, the agency is working with the Office of the Comptroller to resolve the last finding, which will ensure proper verification of homeowner’s tax credits.

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 three tax credit programs as follows:

- Homeowners' Property Tax Credit Program;
- Renters' Tax Credit Program (RTC); and
- Enterprise Zone Tax Credit Program.

The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The Enterprise Zone Tax Credit Program reimburses local governments for property tax credits given to businesses that are located in or expand into enterprise zones. SDAT also administers the Base Realignment and Closure (BRAC) Revitalization and Incentive Zone Tax Credit Program, which was closed to new zones at the end of fiscal 2019 and will be completing its final slate of reimbursement payments for existing zones in fiscal 2020.

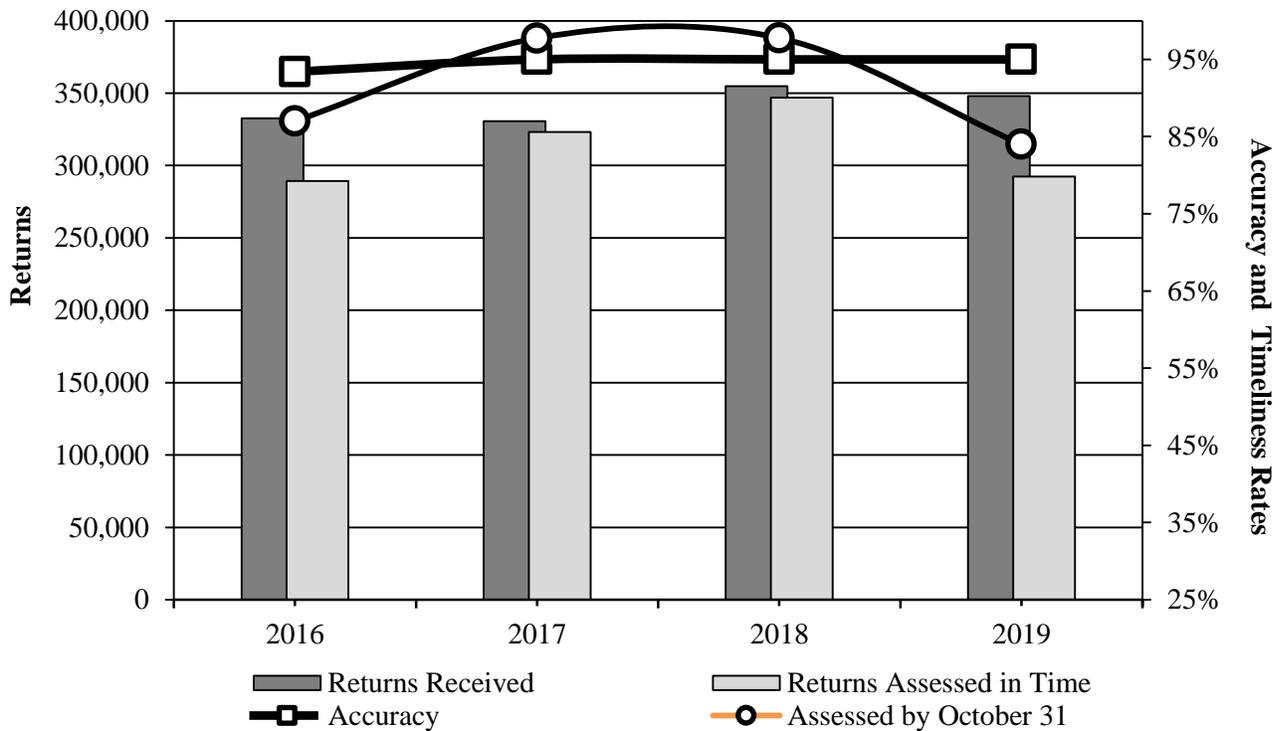
SDAT also collects public service company franchise taxes and assesses all public utility companies in the State. It serves as the filing place for businesses operating in the State and registers companies, corporations, and partnerships in Maryland and generates certificates and certified documents. 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

1. Property Tax Returns Received and Assessed Remain Fairly Stable

Each year, SDAT administers a property valuation system that assesses taxable properties in the State and processes residents’ property tax returns. Overall, the agency strives to process returns accurately and promptly, with a goal of valuing properties at a level between 90% and 110% of each property’s actual market value. **Exhibit 1** shows data on the number of property tax returns received, the amount assessed in a timely fashion (by October 31 of each year), and overall property value assessment accuracy rates.

Exhibit 1
Property Tax Returns and Assessments
 Fiscal 2016-2019



Source: Department of Budget and Management

2. Property Assessments Are 95% Accurate, Meeting SDAT Goals

Property assessments can be a sensitive and sometimes volatile issue for property owners. As a result, 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 100.0%, the closer the assessments are to the sales prices. A ratio over 100.0% indicates that assessments were higher, and a ratio under 100.0% indicates that assessments were lower than market values. The IAAO range and SDAT’s goal for acceptable performance for ASR is 90.0% to 110.0%. **Exhibit 2** shows that the ASR value was 95% for the third year in a row, meeting the agency goal.

Exhibit 2
Property Value Accuracy Measures
Fiscal 2015-2019

<u>Measure</u>	<u>Goal</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Assessment-to-sales Ratio	90-110%	93.0%	93.5%	95.0%	95.0%	95.0%
Coefficient of Dispersion	=< 15.00	10	9	10	10	10
Price-related Differential	.98-1.03	1.01	1.01	1	1	1

Source: Department of Budget and Management

Property Value Assessment Accuracy: Methodology

The department is also performing within its targets 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 COD, the more closely ASRs are to the median ASR value; a COD under 15.0 is considered acceptable. COD for SDAT in fiscal 2019 was 10.0, for the third year in a row.

The third measure is the price-related differential (PRD). PRD measures bias in ASR. Bias in assessments can occur when the amounts are systematically higher or lower than they should be, based on ASR. The ideal PRD is 1.0, which indicates an unbiased assessment. A PRD greater than 1.0 indicates that appraisals for high-dollar properties are underestimated; a PRD less than 1.0 indicates appraisals for low-dollar properties are underestimated. In fiscal 2019, PRD for SDAT was 1.0, meaning that assessments were unbiased for the third year in a row.

3. Customer Service Satisfaction Rates Grow to Over 94%

In fiscal 2016, as part of the Executive Branch’s broader customer service initiative, SDAT began soliciting customers to respond to satisfaction surveys and has reported the results of those surveys since the launch of the project. As illustrated in **Exhibit 3**, there are four years of data available for the program. While the sample size of survey respondents is relatively small, there is continued growth in both the number of responses as well as satisfaction rates, which have grown to 94.1%.

Exhibit 3
Customer Satisfaction Surveys
Fiscal 2016-2019

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Customer Experience Feedback Forms Received	497	748	1,367	2,173
Respondents That Were “Satisfied”	94.4%	91.0%	87.5%	94.1%
Respondents That Were “Dissatisfied”	3.0%	6.2%	12.5%	5.9%

Source: Department of Budget and Management

Fiscal 2020

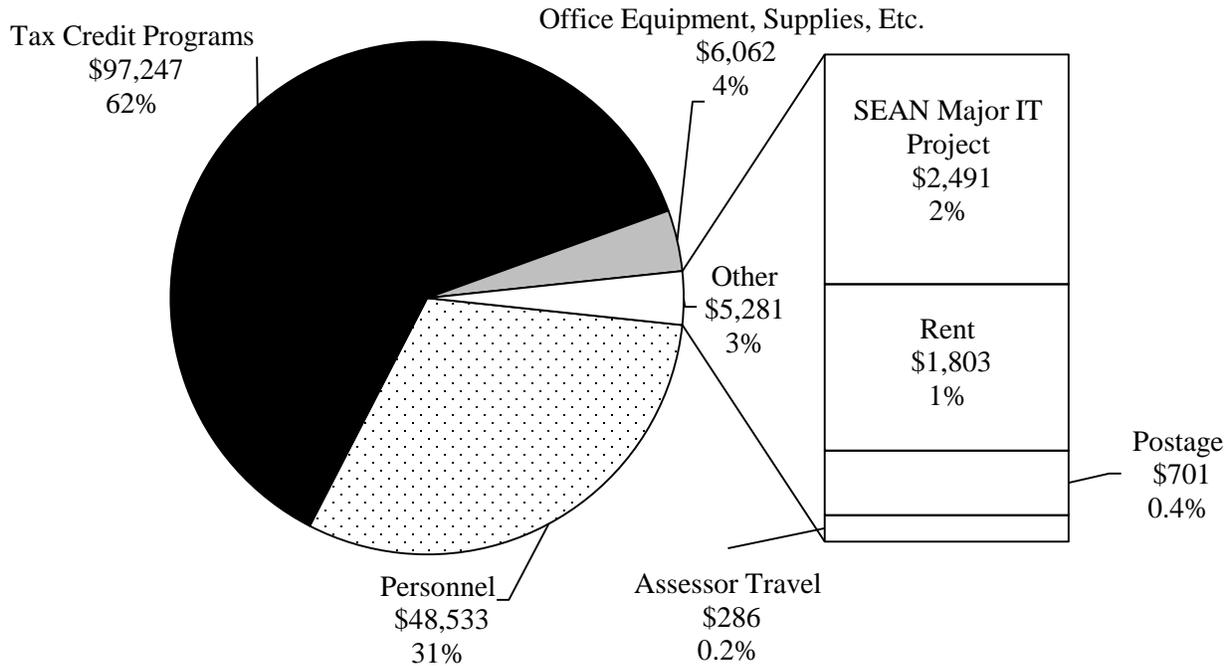
Proposed Deficiency

The Governor’s budget provides SDAT with a fiscal 2020 general fund deficiency totaling \$86,144 to fund operations for the agency’s Tax Sale Ombudsman’s Office, which was established by Chapter 730 of 2019. More information about the office can be found in the Issues section of this analysis.

Fiscal 2021 Overview of Agency Spending

Exhibit 4 depicts SDAT’s total allowance for fiscal 2021. Overall, tax credit payments for the agency’s central programs – Homeowners’, Renters’, and Enterprise Zone tax credits – account for 62% of spending. Outside of these programs, the vast majority of SDAT expenditures is allocated for personnel, at 31%. The next largest spending category is office supplies/equipment with 4%, and all other expenses make up the remaining 3%, including the agency’s new Strategic Enterprise Application Network (SEAN) major information technology (IT) project.

**Exhibit 4
Overview of Agency Spending
Fiscal 2021 Allowance
(\$ in Thousands)**



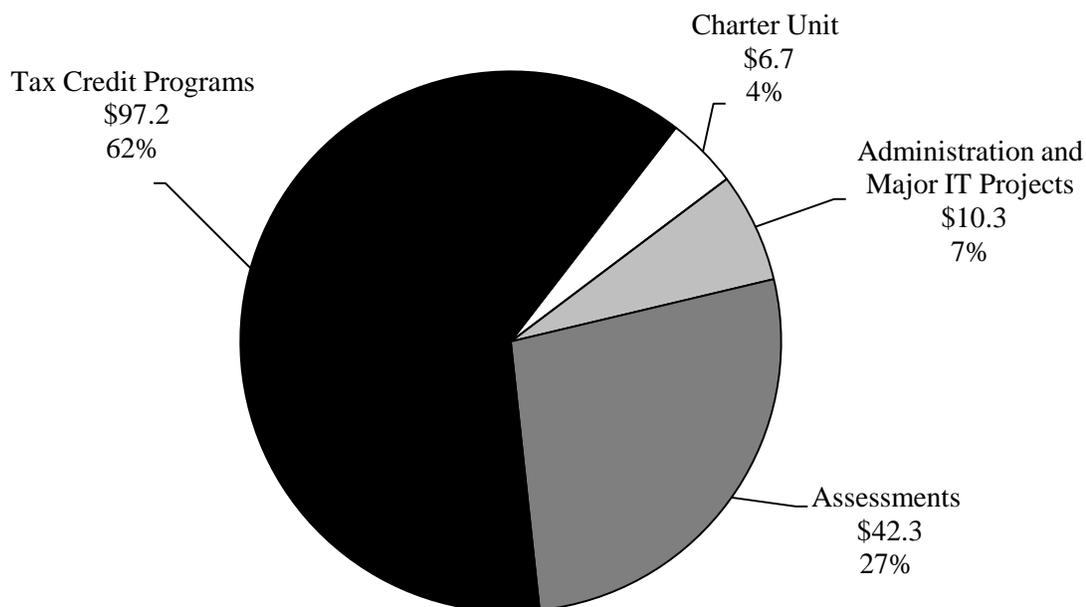
IT: information technology
SEAN: Strategic Enterprise Application Network

Source: Department of Legislative Services

Agency Budget by Function

While the majority of SDAT’s budget is allocated for the payment of State-funded property tax credits, the agency has several other units that actually administer and implement SDAT’s daily operations. **Exhibit 5** shows the agency’s budget by each of these functions. Aside from tax credit programs (62%), assessments makes up 27%, with administration/IT and the Charter Unit with the remaining 11%. The Charter Unit is responsible for business filings and records and is funded entirely with revenue generated by the unit’s expedited service charges.

Exhibit 5
Budget by Agency Function
Fiscal 2021 Allowance
(\$ in Millions)



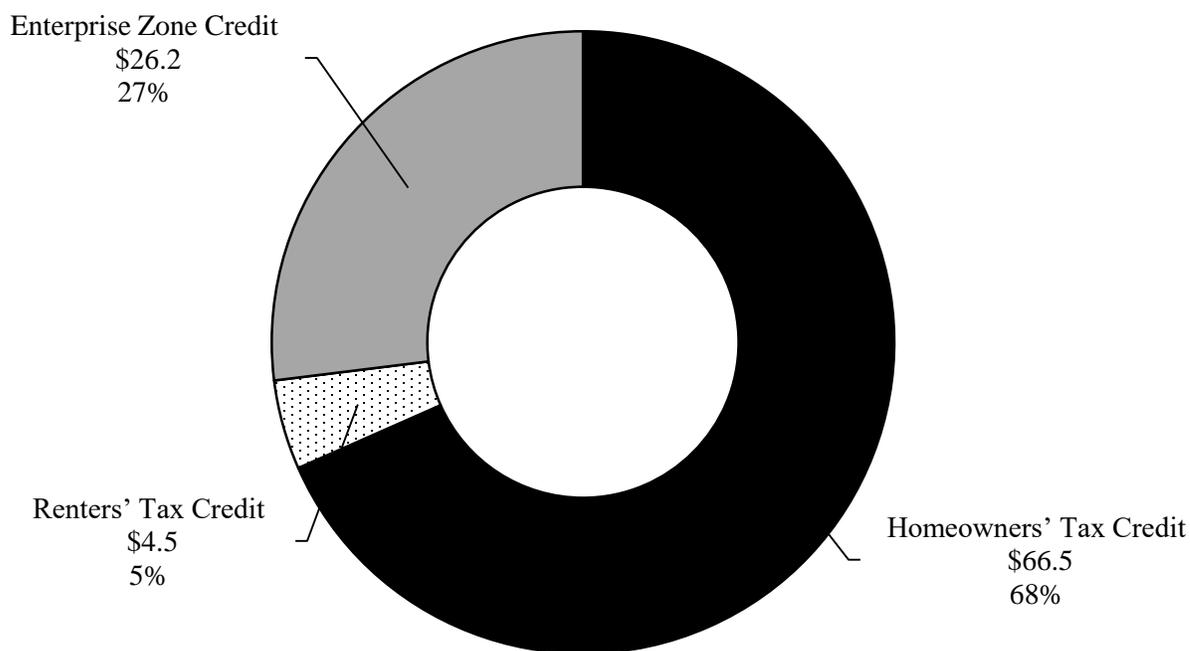
IT: information technology

Note: This chart does not include fiscal 2021 general salary enhancements of \$370,446.

Source: Department of Legislative Services

Exhibit 6 provides more information on the tax credit programs administered by the agency's primary divisions. While all tax credit programs have grown in recent years, the Homeowners' Tax Credit continues to be the largest program at the agency, accounting for 68% of the total. While RTC is the smallest, with \$4.5 million and 5% of the total, it is expected to grow over 13% in fiscal 2021, the largest growth rate among all three programs.

Exhibit 6
Tax Credit Programs
Fiscal 2021
(\$ in Millions)



Source: Department of Legislative Services

Proposed Budget Change

Exhibit 7 depicts the fiscal 2021 allowance in more detail. Overall, the allowance decreases by \$2.5 million, or 1.6% under the fiscal 2020 working appropriation. This decrease is largely attributable to reduced spending on the agency's SEAN Major IT Development Project.

Exhibit 7
Proposed Budget
State Department of Assessments and Taxation
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Total</u>
Fiscal 2019 Actual	\$121,927	\$27,036	\$148,962
Fiscal 2020 Working Appropriation	125,151	34,487	159,637
Fiscal 2021 Allowance	<u>121,244</u>	<u>35,879</u>	<u>157,123</u>
Fiscal 2020-2021 Amount Change	-\$3,906	\$1,392	-\$2,514
Fiscal 2020-2021 Percent Change	-3.1%	4.0%	-1.6%

Where It Goes:

Personnel Expenses	<u>Change</u>
Fiscal 2021 cost-of-living adjustment (COLA) effective January 1, 2021	\$370
5 new positions for State Tax Sale Ombudsman’s Office.....	297
Employer retirement contributions.....	181
Employee and retiree health insurance.....	171
Net annualization of fiscal 2020 COLA	151
Turnover expectancy	107
Social Security contributions and other fringe benefit adjustments.....	-67
Abolished positions (7 office services and 3 assessor-related positions).....	-475
Regular earnings.....	-573
Tax Credit Programs	
Renters’ Tax Credit.....	132
Enterprise Zone Property Tax Credit	-84
Homeowners’ Tax Credit.....	-5
Other Spending	
Office supplies and equipment.....	139
Contractual employee compensation	122
Rent.....	106
Mileage reimbursement and motor vehicles for assessors	31
Software licenses related to major information technology (IT) projects.....	-6
Printing contracts	-23
All other spending	-30
Postage, assessor cellphones, and other communications spending	-190
Major Information Technology Development Project and other IT spending.....	-2,868
Total	-\$2,514

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

Agency Spending Decreases as SDAT Spends Less on IT Project

In fiscal 2021, SDAT’s overall allowance decreases by \$2.5 million, largely due to lower spending on its SEAN Major IT Development Project. SEAN is designed to move the agency away from its current paper-based processes and legacy mainframe technology, which will allow taxpayers to submit tax credit applications and check the status of their submissions online. In fiscal 2020, the agency had over \$4.9 million in funding for the project, which was attributable to SDAT’s need to replace all of its legacy mainframe equipment and required an expansion of the project’s scope. In fiscal 2021, SEAN funding declines by \$2.4 million as SDAT moves into Phase 2, which will deal with the consumer-facing features of the project. The final phase will be complete in February 2021, as the agency moves its full tax credit systems and data into the new system. More information about this project can be found in **Appendix 2** of this analysis.

Budget Reconciliation and Financing Act Alters County Cost Sharing Split with SDAT

The Governor’s proposed fiscal 2021 budget includes a \$4.4 million general fund reduction, contingent upon the enactment of legislation to change the funding formula for SDAT programs. Under current law, local jurisdictions and the State split the costs equally for SDAT’s assessment operations and IT expenses. The proposed formula change requires the counties and Baltimore City to contribute 60% of SDAT expenses with the State providing the remaining 40%. **Exhibit 8** shows the amounts that each local jurisdiction will pay – one with the current cost split and the other with the proposed cost split as proposed by the Budget Reconciliation and Financing Act.

Exhibit 8 Proposed Cost Sharing Totals Fiscal 2021

<u>County</u>	<u>Current Costs</u>	<u>Proposed Costs</u>	<u>Increase</u>
Allegany	\$376,792	\$452,150	\$75,358
Anne Arundel	2,084,158	2,500,990	416,832
Baltimore City	2,196,532	2,635,838	439,306
Baltimore	2,809,856	3,371,828	561,972
Calvert	387,737	465,284	77,547
Caroline	142,660	171,192	28,532
Carroll	626,290	751,548	125,258
Cecil	461,958	554,350	92,392
Charles	611,628	733,954	122,326
Dorchester	197,993	237,591	39,598
Frederick	876,435	1,051,722	175,287
Garrett	273,998	328,798	54,800
Harford	950,284	1,140,341	190,057
Howard	1,056,484	1,267,781	211,297
Kent	115,310	138,372	23,062

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<u>County</u>	<u>Current Costs</u>	<u>Proposed Costs</u>	<u>Increase</u>
Montgomery	3,227,953	3,873,544	645,591
Prince George's	2,786,357	3,343,628	557,271
Queen Anne's	223,579	268,295	44,716
St. Mary's	451,545	541,854	90,309
Somerset	159,640	191,568	31,928
Talbot	183,000	219,600	36,600
Washington	559,462	671,354	111,892
Wicomico	429,430	515,316	85,886
Worcester	589,787	707,745	117,958
Total	\$21,778,868	\$26,134,643	\$4,355,775

Source: Department of Legislative Services

Personnel Data

	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20-21</u> <u>Change</u>
Regular Positions	592.30	592.30	587.30	-5.00
Contractual FTEs	<u>12.35</u>	<u>8.00</u>	<u>10.20</u>	<u>2.20</u>
Total Personnel	604.65	600.30	597.50	-2.80

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	44.60	7.66%
Positions and Percentage Vacant as of 12/31/19	81.00	13.68%
Vacancies Above Turnover	36.40	

- New State Tax Sale Ombudsman Office:*** Chapter 730 created the Office of the State Tax Sale Ombudsman. As a result, in fiscal 2021, SDAT has over \$296,000 for 5 new positions (4 regional tax sale representatives and 1 State tax sale ombudsman). More information about this office can be found in the Issues section of this analysis.
- 10 Positions Abolished:*** The agency reports that, as part of its continued analysis of personnel, it was able to abolish 10 positions (7 office services and 3 assessor-related positions in the Real Property Valuation and Property Tax Credit Program units). These positions, representing \$475,123 in funding, had either been vacant for more than six months or were vacant positions that could be covered by current staff without great hardship to the program. Including the 5 new positions, SDAT has a net loss of 5 regular positions in fiscal 2021.

Assessor Vacancies Remain High

At the end of calendar 2019, SDAT had 81 vacancies, which is nearly twice what is needed to meet budgeted turnover in fiscal 2021. In January 2020, the agency released its required 2019 *Joint Chairmen’s Report* SDAT Real Property Valuation Report, which outlined challenges and successes in the most recent fiscal year. Overall, the agency has two issues in terms of hiring: (1) multiple assessors continue to leave the agency; and (2) hiring is not as robust because SDAT has been unable to compete due to low employee compensation levels.

SDAT continues to struggle with filling assessor positions, despite the fact that the median vacant salary in this division is nearly \$44,000, which is higher than any other division in the agency. Although SDAT reported that the Real Property division vacancy rate declined from 17% to 11.9% and that the agency hired 54 new staff during fiscal 2019, the actual number of vacancies grew from 48 in July 2019 to 56 in January 2020. With the base salary for assessor positions starting at less than \$28,000, the agency completed an Annual Salary Review for the classification and determined that other jurisdictions were able to hire assessors at compensation levels significantly higher than what is offered by the State and, in most cases, it was 30% to 50% higher.

With an anticipated 20% of its existing assessor staff eligible to retire in the next year, improved hiring will be critical for the agency. SDAT reports that it currently has 40 active job postings for assessor positions online and that it can receive as many as 400 applications for each position, with 95% of applicants meeting the necessary qualifications for employment. This would imply that for each vacant position, SDAT has 380 qualified applicants from which to choose – enough to fill all of its assessor vacancies at least nine times over. This high volume applicant pool, however, is not translating into filled positions, which raises questions about the agency’s hiring process.

Additionally, the agency’s lack of assessors has had effects on property assessment hearings, not the least of which is the fact that the Property Tax Assessment Appeals Boards (PTAAB) amassed case backlogs in the past, in part, due to hearing delays because SDAT assessors were not available or unable to attend.

SDAT should comment on its progress and challenges in hiring including the Annual Salary Review; the lack of hiring progress given the large amount of qualified applicants; and overall progress regarding PTAAB hearing postponements.

The Department of Legislative Services recommends that SDAT continue to provide quarterly updates on its Real Property Valuation Program.

Issues

1. SDAT Overview: Property Tax Credit Programs

Property Tax Credit Claims Remain Steady

For fiscal 2019, SDAT distributed a total of \$96.8 million in tax credits, a 7.7% increase over the fiscal 2018 total of \$89.8 million. In fiscal 2021, the agency estimates that tax credit growth in every category will remain modest with the exception of RTC, which is designed to grant tax relief to elderly and/or disabled renters. **Exhibit 9** shows program growth for all of SDAT’s major tax credit programs. While growth is modest in expected Homeowners’ and Enterprise Zone tax credit payments, RTC is expected to increase by 13.3%; this is due in part to Chapter 483 of 2016 that expanded the maximum RTC from \$750 to \$1,000.

Exhibit 9
Property Tax Credit Program Expenditures
Fiscal 2017-2021
(\$ in Thousands)

	<u>Actual 2017</u>	<u>Actual 2018</u>	<u>Actual 2019</u>	<u>Working Approp. 2020</u>	<u>Allowance 2021</u>	<u>\$ Change 2020-2021</u>	<u>% Change 2020-2021</u>
Homeowners’ Tax Credit	\$54,151	\$58,057	\$65,461	\$66,500	\$66,495	-\$5	-0.01%
Renters’ Tax Credit	3,086	3,200	4,383	4,400	4,532	132	13.3%
Enterprise Zone Tax Credit	19,930	26,440	24,790	26,304	26,220	-84	-0.3%
BRAC Zone Credit*	838	2,133	2,133	–	–	–	–
Total	\$78,005	\$89,829	\$96,766	\$97,204	\$97,247	\$43	1.5%

BRAC: Base Realignment and Closure

*Program closed to new zones at the end of fiscal 2019; final payments of \$169,558 are estimated for fiscal 2020.

Source: Governor’s Fiscal 2021 Budget Books

Tax Credit Utilization Remains Steady

Chapters 667 and 668 of 2016 required SDAT to compile a list of all residential properties valued at less than \$300,000 for which credits were not claimed and to work with the Comptroller to determine which homeowners might be eligible for the program. SDAT was then required to contact those homeowners with information about the tax credit. While Homeowners’ Tax Credit applicants have grown 7% since then, that growth has slowed in the most recent fiscal year and actually decreased 1.4%. To qualify for the credit, applicants must have a combined gross household income of less than \$60,000. Because the economy has continued to improve, it is likely that fewer applicants are eligible for the credit, which explains the 1.8% decline in that category.

- **Tax Credit Outreach:** The agency reports that it mails between 75,000 and 150,000 postcards to potential applicants who may be eligible to receive tax credits but have not yet applied. SDAT then follows up with press releases to keep the public informed.

Renters’ Tax Credits Decline

While the number of RTC applicants increased from fiscal 2016 to 2018, the total number of applicants and those eligible in fiscal 2019 declined by 11% and 15%, respectively, since the previous fiscal year. These totals can vary as fewer elderly or disabled residents applied for the credit, as illustrated in **Exhibit 10**.

Exhibit 10
Homeowners’ and Renters’ Tax Credit Program Utilization
Fiscal 2016-2019

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Change</u> <u>2018-2019</u>
Homeowners’ Tax Credit					
HTC Applicants	62,335	61,540	67,587	66,635	-1.4%
HTC Eligible	46,751	45,964	46,682	45,822	-1.8%
Average Credit Value	\$1,249	\$1,301	\$1,322	\$1,347	1.9%
Renters’ Tax Credit					
RTC Applicants	10,606	11,720	12,013	10,671	-11.1%
RTC Eligible	7,650	8,374	8,904	7,526	-15.4%
Average Credit Value	\$301	\$344	\$403	\$420	4.2%

HTC: Homeowners’ Tax Credit

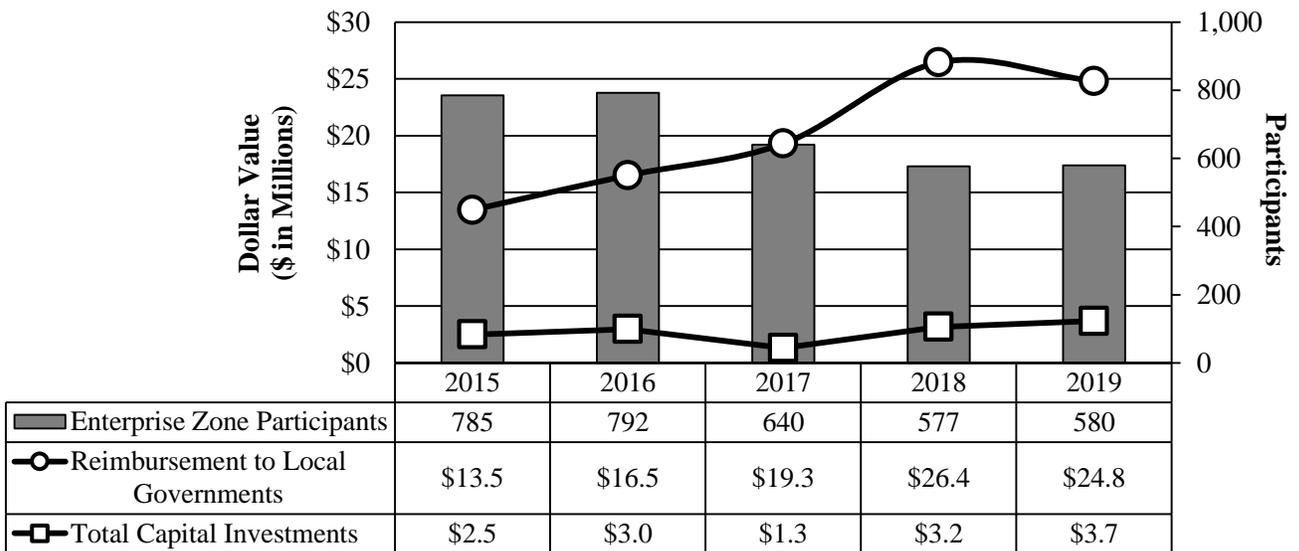
RTC: Renters’ Tax Credit

Source: Department of Budget and Management

Enterprise Zone Tax Credit Participants Decrease; Investments Rise 16%

The Enterprise Zone Tax Credit Program provides income tax credits for businesses located in a Maryland enterprise zone in return for job creation and investment. Businesses located in focus areas may also qualify for personal property tax credits on new investment and enhanced tax credits for creating new jobs. In total, the number of Enterprise Zone participants has fallen in recent years and was flat in 2019. At the same time, total capital investment is up 16% and is expected to continue to rise as illustrated in **Exhibit 11**.

Exhibit 11
Enterprise Zone Tax Credit Investments and Participants
Fiscal 2015-2019



Source: Department of Budget and Management

Enterprise Zone Investments and Reimbursements Rise Significantly Since Fiscal 2015

The total number of participants in the Enterprise Zone Tax Credit Program rises and falls as businesses grow, leave the area, or close. The agency notes that several new large participants to the program have made sizable investments in the State; one example is Amazon, which built a 1 million square-foot warehouse in Cecil County with an investment of over \$80 million. SDAT notes that this project increased market value in that particular zone, which in turn increases the tax credits paid to all participants in that zone. Investments tied to the program have risen 16% as businesses have expanded and obtain higher assessment values. While the amount that SDAT reimburses to local governments for extending tax credits has decreased 6.2% from fiscal 2018, reimbursements have risen 84% since

fiscal 2015, and total capital investments from the program have grown over 47% during the same time period.

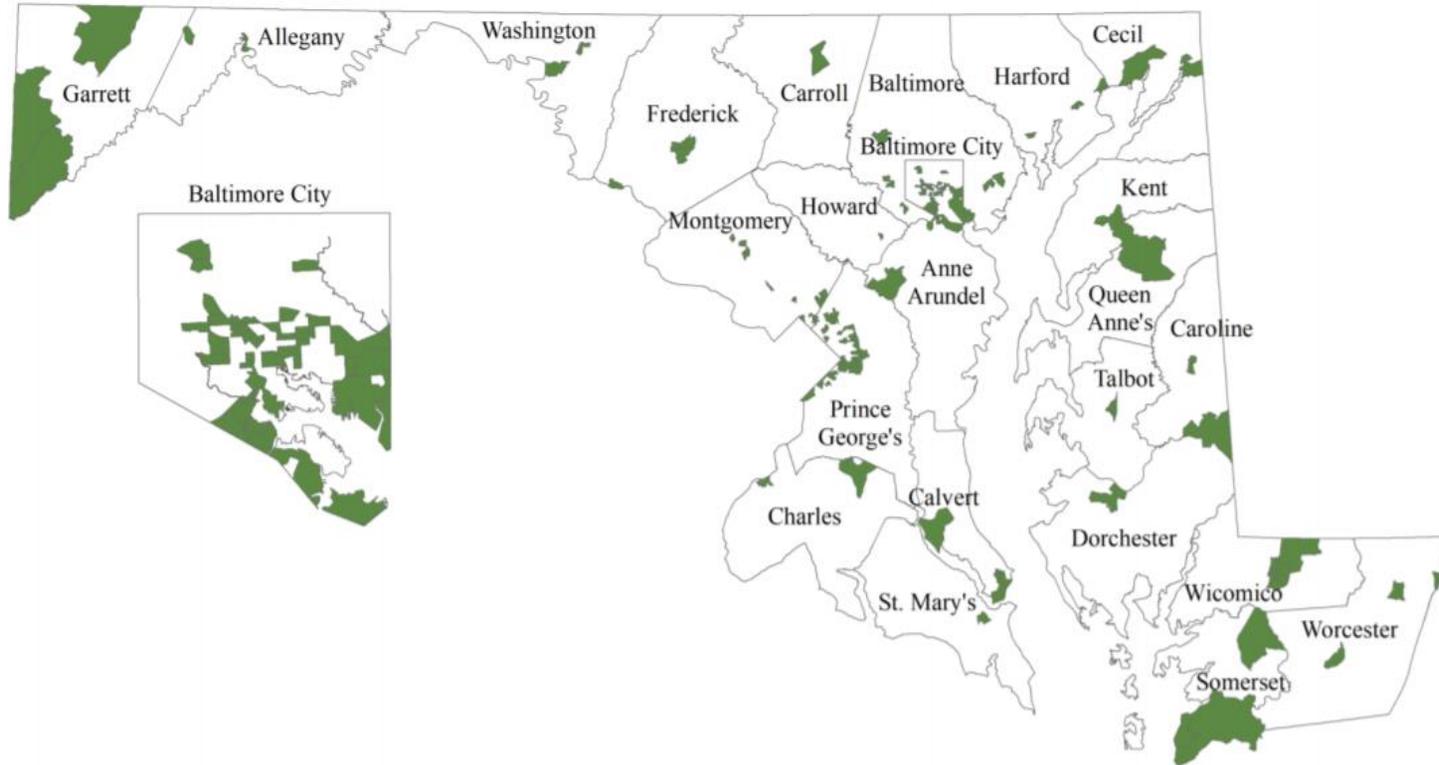
Opportunity Zone Tax Incentives

The federal Tax Cuts and Jobs Act of 2017 allowed for the creation of opportunity zones for which SDAT is responsible for the payment of eligible tax credits. These zones were created with built-in tax incentives designed to increase investments in Maryland’s distressed communities. These areas were designated by the State in April 2018 and offer three areas of tax-related benefits:

- **Temporary Tax Deferral:** Investors can place assets with capital gains into opportunity funds (the investment vehicle that invests in opportunity zones); these gains can then remain untaxed until 2026, or when the asset is disposed of;
- **Capital Gains Tax Decreases:** If an investor places capital gains in an opportunity fund, the investor will pay just 90% of the capital gains taxes if invested for at least five years and will owe taxes on 85% of capital gains if invested for at least seven years.
- **Permanent Tax Exemption on New Gains:** If an investor holds an opportunity fund investment for at least 10 years, they would pay zero taxes on any capital gains produced by the investment.

In fiscal 2021, there are 149 opportunity zones in the State. While the Department of Commerce is responsible for administering the tax credit applications and business certifications for the program (similar to the BRAC credits), SDAT will administer the payments, which will be submitted by the counties. Overall, SDAT anticipates that its opportunity zone workload will be similar to that of the BRAC tax credit program. However, new construction assessments in its Baltimore City assessment office may require more staff to handle potential increased workloads. **Exhibit 12** shows the location of all statewide Opportunity Zones.

Exhibit 12
Maryland Opportunity Zones
Fiscal 2021



Source: Department of Information Technology

2. New State Tax Sale Ombudsman Office

The Tax Sale Process

Pursuant to Maryland law (Md. Code Ann., Tax-Prop. § 14-808 to 14-820), when a resident's property taxes are delinquent, the tax collection authority is permitted to sell the resident's home at a tax sale (also called a tax lien sale, or tax lien certificate sale). In most cases, a resident's home can be sold at a public auction to the highest bidder willing to pay the total amount of all taxes, interest, penalties, and expenses related to the sale. However, unlike many other states, Maryland law establishes a redemption period of at least six months during which the homeowner can redeem their property by paying the required debt. This prevents the auction purchaser from obtaining full title and returns the home to the original owner.

Overall, while the process does offer the homeowner an opportunity to reclaim their home, the tax sale process is complex with multiple requirements and due dates for the taxpayer in question. To address this process, Chapter 730 created the new State Tax Sale Ombudsman's Office in SDAT. In fiscal 2021, SDAT receives over \$296,000 for 5 new positions – the ombudsman and 4 regional tax sale representatives. The office will help eligible homeowners with the delinquent tax collection process and will assist residents with applying for tax credits (such as the Homestead and Homeowners' Property Tax Credit programs) and other options that could ease the burden of paying delinquent taxes and forestall the possibility of a tax sale. In addition, the ombudsman's office will refer homeowners to legal services and educate residents on how to redeem their property if it is sold at auction.

Tax Sale Ombudsman Activities

In November 2019, SDAT hired the tax sale ombudsman, who has begun compiling the basic information needed to respond to inquiries in calendar 2020. The agency also has a webpage and accepts emails and phone calls. In each case, SDAT can provide homeowners with key information on their county's specific tax sale process, contact details for the proper county officials, and assistance on whether they may be eligible for relevant tax credits. The key to these efforts are SDAT's ability to work with local jurisdictions, and the agency plans to refine and improve the program throughout calendar 2020.

Finally, the new office will collect data on properties that are subject to tax sale on an annual basis and will summarize this information in both a public report for its website and to the General Assembly on or before December 31 of each year as required by statute. Historically, SDAT does not collect tax sale data from the counties or provide delinquency/tax sale notices to homeowners. However, local jurisdictions send out approximately 60,000 tax sale notices each year. While SDAT will report information each year, the tax sale data from each county will inform the budget committees about which jurisdictions may have the most need in this area. **Therefore, SDAT should comment on what data sets might be a part of its annual report, and if tax sale breakdowns by county will be included.**

Tax Sale Delinquencies

Additionally, in some jurisdictions, a home can be placed in a tax sale for relatively minor amounts due in property taxes (and in some cases, for municipal liens such as water bills). For example, in Baltimore City, a house can be put up for tax sale with just \$750 in property tax delinquencies. Also, certain areas may have more property tax lien sales than others. The ombudsman is likely the only authority in the State where collecting key property tax lien sale information for each county would be appropriate, given the mandate of the legislation which created this office. **Therefore, SDAT should collect specific data on property tax lien sales in each jurisdiction and include this information in an update to the budget committees as the goal is to understand any factor that may affect property tax delinquency and what measures can be taken to offer tax relief to State homeowners.**

Operating Budget Recommended Actions

1. Adopt the following narrative:

Status Updates on Staffing in the Real Property Valuation Program: The committees continue to be concerned about reports of the serious staffing and hiring problems in the Real Property Valuation Program due to noncompetitive salaries, a high number of employees leaving State service, and inadequate recruiting and hiring. While the State Department of Assessments and Taxation (SDAT) has reported on this issue each quarter during the last 12 months, the committees wish to remain briefed on this situation. In addition to a narrative description of SDAT’s efforts to increase hiring for this program, these reports shall include the following information by employee class title and jurisdiction for the quarter preceding the due date of the report:

- the number of employees in the program that have left State service;
- the number of new hires;
- the number of positions posted;
- the number of qualifying applications received in response to each posting; and
- the length of time from the posting of each position to the acceptance of an offer of employment.

Information Request	Author	Due Date
Status updates on staffing in the Real Property Valuation Program	SDAT	July 15, 2020 October 15, 2020 January 15, 2021 April 15, 2021

2. Adopt the following narrative:

Maryland Jurisdiction Tax Lien Sale Information Report: In some Maryland jurisdictions, a home can be placed into a tax sale for relatively minor amounts due in property taxes (and in some cases, for municipal liens such as water bills). For example, in Baltimore City, a house can be put up for tax sale with just \$750 in property tax delinquencies. The State Department of Assessments and Taxation (SDAT) Ombudsman’s Office is likely the only authority in the State where collecting select property tax lien sale information for each county would be appropriate, given the mandate of Chapter 730 of 2019 which created the office. Therefore, SDAT should collect the following information from each jurisdiction for the most recent fiscal year:

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- property tax delinquency thresholds (i.e., the minimum amount required to initiate a homeowner property tax lien sale);
- the length of the jurisdiction’s tax lien sale redemption period (if any);
- the total number of property tax lien sales; and
- the neighborhood of each property tax lien sale.

The agency should include this information in a brief update to the budget committees as the goal is to understand any factor that may affect property tax delinquency and what measures can be taken to offer tax relief to homeowners in the State.

Information Request	Author	Due Date
Property tax lien sale report	SDAT	November 1, 2020

Updates

1. 2018 Audit Resolution Nearly Complete

Regarding the 2016 audit and 2018 repeat findings, the department was not required to respond further to the Office of Legislative Audits (OLA). Based on OLA’s review, SDAT resolved Findings 3, 5, 7, and 8 but had not fully resolved items 6 and 10. Finding 10, which stated that controls were not in place to ensure that personal property filing fee collections were properly accounted for, secured, and deposited – was addressed and resolved. Currently, the agency is working to resolve Finding 6 with the Comptroller’s Office.

Finding 6: Homeowner Tax Credit Verification

SDAT had not performed timely and comprehensive verification procedures to help ensure the accuracy of homeowners’ tax credits awarded and did not verify the propriety of redeemed credits and related reimbursement requests from local jurisdictions. The agency notes that it is currently resolving this issue in conjunction with the Comptroller’s Office. SDAT reports that counties currently have the option of offsetting State tax payments with the tax credits that they are due. Because SDAT and the Comptroller’s Office agree that the county payments and county reimbursements should be separated (so that SDAT can verify reimbursements before the Comptroller pays them), they are collectively working on a new process set to begin in early calendar 2020.

Appendix 1
2019 Joint Chairmen’s Report Responses from Agency

The 2019 *Joint Chairmen’s Report* (JCR) requested that SDAT prepare two reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services (DLS) Library website.

- ***Report on Tax Increment Financing Grant Calculation:*** In fiscal 2020, funding was restricted pending a report from the State Department of Assessments and Taxation (SDAT), the Department of Budget and Management, and the Maryland State Department of Education on the calculation of tax increment financing (TIF) grants to local boards of education for fiscal 2020. This language was added due to concerns that funding provided for TIF grants was based on a calculation that utilized a valuation for real property for TIF districts that was too large for certain jurisdictions. In its review of the TIF grant calculation, SDAT discovered a discrepancy due to an overstatement in the calculations for Prince George’s County and corrected it. Upon review, DLS concurred with SDAT’s adjustment, and the funds were released.

- ***Status Updates on Staffing in the Real Property Valuation Program:*** This report was due to be provided on a quarterly basis in July to October 2019 and January to April 2020 on the agency’s assessor staff as well as issues and challenges regarding hiring within the program. Data from the submitted reports was used to inform staffing-related discussions in this analysis.

Appendix 2
Major Information Technology Project
State Department of Assessments and Taxation
Strategic Enterprise Application Network

New/Ongoing: Ongoing.								
Start Date: Fiscal 2018				Est. Completion Date: Fiscal 2021				
Implementation Strategy: Waterfall								
(\$ in Millions)	Prior year	2020	2021	2022	2023	2024	Remainder	Total
GF	\$408.0	\$152.5	\$956.9					\$1,517.4
SF	2,238.0	4,753.0	1,533.8					8,524.8
Total	\$2,646.0	\$4,905.5	\$2,490.7					\$10,042.2

- **Project Summary:** This project is designed to migrate and redevelop the agency’s current business processes and applications into a web-based, user-centric program that can serve both internal and external customers.
- **Need:** The project will allow the State Department of Assessments and Taxation (SDAT) to move away from paper-based processes and legacy mainframe technology. It will replace older inward and outward facing systems and allow taxpayers to securely submit tax credit applications and check the status of their submissions online at any time.
- **Observations and Milestones:** The project has already completed the integration of Renters’ and Homeowners’ Tax Credit applications online. The next phase, Phase 2, goes into effect spring 2020 and will automatically verify account property information and send applications to SDAT immediately upon submission. Phase 3 will replace the entire legacy mainframe system back end and should be completed by February 2021.
- **Concerns:** There are some risks associated with the integration between the new OneStop platform and the legacy SDAT mainframe that will involve opening network access connecting the new system to agency servers.

Appendix 3
Object/Fund Difference Report
State Department of Assessments and Taxation

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	592.30	592.30	587.30	-5.00	-0.8%
02 Contractual	12.35	8.00	10.20	2.20	27.5%
Total Positions	604.65	600.30	597.50	-2.80	-0.5%
Objects					
01 Salaries and Wages	\$ 42,475,063	\$ 47,129,921	\$ 46,770,814	-\$ 359,107	-0.8%
02 Technical and Special Fees	361,130	295,629	418,064	122,435	41.4%
03 Communication	1,238,015	1,108,978	922,747	-186,231	-16.8%
04 Travel	205,430	255,252	266,654	11,402	4.5%
06 Fuel and Utilities	28,033	27,000	29,000	2,000	7.4%
07 Motor Vehicles	104,959	69,203	88,722	19,519	28.2%
08 Contractual Services	5,106,439	11,174,175	8,384,717	-2,789,458	-25.0%
09 Supplies and Materials	178,617	176,700	199,376	22,676	12.8%
10 Equipment – Replacement	550,626	148,534	177,896	29,362	19.8%
11 Equipment – Additional	42,239	2,208	5,208	3,000	135.9%
12 Grants, Subsidies, and Contributions	96,768,690	97,203,672	97,246,584	42,912	0%
13 Fixed Charges	1,903,246	1,809,025	1,940,842	131,817	7.3%
Total Objects	\$ 148,962,487	\$ 159,400,297	\$ 156,450,624	-\$ 2,949,673	-1.9%
Funds					
01 General Fund	\$ 121,926,847	\$ 125,074,009	\$ 125,264,259	\$ 190,250	0.2%
03 Special Fund	27,035,640	34,326,288	31,186,365	-3,139,923	-9.1%
Total Funds	\$ 148,962,487	\$ 159,400,297	\$ 156,450,624	-\$ 2,949,673	-1.9%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.

Appendix 4
Fiscal Summary
State Department of Assessments and Taxation

<u>Program/Unit</u>	<u>FY 19 Actual</u>	<u>FY 20 Wrk Approp</u>	<u>FY 21 Allowance</u>	<u>Change</u>	<u>FY 20 - FY 21 % Change</u>
01 Office of the Director	\$ 2,853,366	\$ 3,953,224	\$ 4,314,503	\$ 361,279	9.1%
02 Real Property Valuation	34,033,167	36,173,422	35,785,168	-388,254	-1.1%
04 Office of Information Technology	3,410,828	4,388,215	4,423,368	35,153	0.8%
05 Business Property Valuation	3,043,494	3,540,560	3,349,200	-191,360	-5.4%
06 Tax Credit Payments	96,766,404	97,203,672	97,246,584	42,912	0%
08 Property Tax Credit Programs	2,223,822	2,798,857	3,123,368	324,511	11.6%
09 Major Information Technology Development	204,089	4,753,000	1,533,766	-3,219,234	-67.7%
10 Charter Unit	6,427,317	6,589,347	6,674,667	85,320	1.3%
Total Expenditures	\$ 148,962,487	\$ 159,400,297	\$ 156,450,624	-\$ 2,949,673	-1.9%
General Fund	\$ 121,926,847	\$ 125,074,009	\$ 125,264,259	\$ 190,250	0.2%
Special Fund	27,035,640	34,326,288	31,186,365	-3,139,923	-9.1%
Total Appropriations	\$ 148,962,487	\$ 159,400,297	\$ 156,450,624	-\$ 2,949,673	-1.9%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.