

**E50C**  
**Department of Assessments and Taxation**

***Operating Budget Data***

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(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$41,810	\$41,252	\$39,703	-\$2,107	\$41,820	\$2,117
Contractual Services	3,846	3,811	3,082	-764	3,558	476
Grants	50,138	46,394	37,131	-13,007	45,800	8,669
Contingent & Back of Bill Reductions	0	0	0	0	-279	-279
<b>Adjusted Grand Total</b>	<b>\$95,795</b>	<b>\$91,457</b>	<b>\$79,916</b>	<b>-\$15,879</b>	<b>\$90,899</b>	<b>\$10,983</b>
General Funds	93,052	88,503	76,697	-16,355	87,854	11,157
Contingent & Back of Bill Reductions	0	0	0	0	-253	-253
<b>Adjusted General Funds</b>	<b>\$93,052</b>	<b>\$88,503</b>	<b>\$76,697</b>	<b>-\$16,355</b>	<b>\$87,601</b>	<b>\$10,904</b>
Special Funds	2,743	2,954	3,219	476	3,324	105
Contingent & Back of Bill Reductions	0	0	0	0	-26	-26
<b>Adjusted Special Funds</b>	<b>\$2,743</b>	<b>\$2,954</b>	<b>\$3,219</b>	<b>\$476</b>	<b>\$3,298</b>	<b>\$79</b>
<b>Adjusted Grand Total</b>	<b>\$95,795</b>	<b>\$91,457</b>	<b>\$79,916</b>	<b>-\$15,879</b>	<b>\$90,899</b>	<b>\$10,983</b>
<b>Annual % Change</b>		<b>-4.5%</b>	<b>-12.6%</b>		<b>13.7%</b>	

- The State Department of Assessments and Taxation (SDAT) decreased appropriation by over \$15 million between fiscal 2002 and 2004. The majority of this was a \$10 million change of funding in the tax credit program in fiscal 2004. Savings were also generated by the deletion of nearly 70 positions over that time.
- The largest increase in the fiscal 2005 allowance is an \$8.7 million increase in the Homeowners' Tax Credit program. This is due to the restoration of a one-time only funding change in fiscal 2004.

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

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## *Personnel Data*

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	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	763.0	735.5	695.5	-67.5	695.5	0.0
Contractual FTEs	3.0	2.5	0.0	-3.0	0.0	0.0
<b>Total Personnel</b>	<b>766.0</b>	<b>738.0</b>	<b>695.5</b>	<b>-70.5</b>	<b>695.5</b>	<b>0.0</b>

### *Vacancy Data: Regular Positions*

Turnover Expectancy	31.58	4.54%
Positions Vacant as of 12/31/03	58.80	8.45%

- Since fiscal 2002 SDAT has deleted 68 regular positions, most have been in Real Property Valuation.

## ***Analysis in Brief***

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### **Major Trends**

***Assessments Are Accurate:*** Based on standard measures of assessment accuracy, SDAT's assessments are accurate and unbiased.

***Department Has Most Services On-line:*** Statute requires that agencies offer a significant amount of their services on the Internet; SDAT has exceeded the goal contained in statute.

### **Issues**

***Downward Trend in Homeowners' Tax Credit Program Continues:*** The Homeowners' Tax Credit program is expected to have a lower utilization rate in fiscal 2005.

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce the increase for the purchase of software.	\$ 8,700
2. Adopt narrative requiring a report on the Tax Credit Program.	
3. Reduce credit card processing payments.	10,000
4. Reduce office supplies.	10,788
<b>Total Reductions</b>	<b>\$ 29,488</b>

*E50C – Department of Assessments and Taxation*

**E50C**  
**Department of Assessments and Taxation**

***Operating Budget Analysis***

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**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: the Homeowners' Tax Credit Program, the Renters' 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 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**

**Assessments Are Accurate**

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

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 the assessment was too high and a ratio under 100% indicates the assessment was too

*E50C – Department of Assessments and Taxation*

low. The IAAO range for acceptable performance for ASR is 90 to 110%. The *coefficient of dispersion* (COD) measures how close the ASR is to the median ASR for an area. A large COD indicates a wide range of assessment values in an 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. The ideal PRD is 1, indicating perfectly unbiased assessments. A PRD in excess of 1 indicates a bias against high dollar properties, and a PRD less than 1 indicates a bias against low dollar properties. **Exhibit 1** presents the details for SDAT’s accuracy measures.

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**Exhibit 1**  
**Assessment Accuracy Measures**  
**Fiscal 2002 – 2005**

<u>Measure</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 (Est.)</u>	<u>FY 2005 (Est.)</u>
ASR	90%	90%	93%	90%
COD	9.3	10.0	10.0	10.0
PRD	1.02	1.02	1.01	1.01

Source: Governor’s Budget Books

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As Exhibit 1 shows, SDAT’s accuracy measures have been strong and are expected to remain strong in fiscal 2004 and 2005.

**Department Has Most Services On-line**

The department, in response to the “50-65-80” initiative begun in 2000, has been very aggressive in making its services available on-line. SDAT reports that 89% of its services were available on-line in fiscal 2003, and it expects to have over 90% of its services available on-line in fiscal 2005.

**Fiscal 2004 Actions**

As a result of the Board of Public Works’ (BPW) action in July 2003, SDAT took \$2.45 million in cost containment actions. **Exhibit 2** details how the department allocated these reductions.

**Exhibit 2**  
**BPW Cost Containment Allocation**

<u>Action</u>	<u>Explanation</u>	<u>Reduction</u>
Eliminate 7 positions	Elimination of 7 filled cartographer positions. SDAT no longer has the functional responsibility for maintaining property maps.	\$273,307
Eliminate 23 vacant PINs	Elimination of 23 highest paid vacancies throughout the department, 18 of which are assessors in the Real Property Valuation Division.	1,282,407
Increased special fund revenue	\$400,000 increase resulting from increased document filing and recording fees. \$67,024 increase resulting from increased number of document filings. These special funds will be used to supplant general fund salary expenditures.	467,024
Reduced overtime	Reduction of overtime payments in Real Property Valuation, Business Property, Property Tax Credit Program, and the Charter Unit.	202,199
Eliminate contractual employment	Elimination of 2.5 contractual positions.	82,652
Various operating reductions	Elimination of funding for new vehicles, building renovations, travel, and software licenses.	96,811
Reduced non-Department of General Services rent	Reduce funding for rental payments.	45,750

Source: State Department of Assessments and Taxation

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**Governor's Proposed Budget**

**Exhibit 3** details the Governor's fiscal 2005 allowance. The allowance increases by \$10.9 million (13.7%) over the fiscal 2004 working appropriation.

**Exhibit 3**  
**Governor's Proposed Budget**  
**State Department of Assessments and Taxation**  
(\$ in Thousands)

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
General Funds	\$88,503	\$76,697	\$87,854	\$11,157	14.5%
Contingent & Back of Bill Reductions	0	0	-253	-253	
<b>Adjusted General Funds</b>	<b>\$88,503</b>	<b>\$76,697</b>	<b>\$87,601</b>	<b>\$10,904</b>	<b>14.2%</b>
Special Funds	\$2,954	\$3,219	\$3,324	\$105	3.3%
Contingent & Back of Bill Reductions	0	0	-26	-26	
<b>Adjusted Special Funds</b>	<b>\$2,954</b>	<b>\$3,219</b>	<b>\$3,298</b>	<b>\$79</b>	<b>2.5%</b>
<b>Adjusted Grand Total</b>	<b>\$91,457</b>	<b>\$79,916</b>	<b>\$90,899</b>	<b>\$10,983</b>	<b>13.7%</b>

**Where It Goes:**

**Personnel Expenses**

Increments and other compensation.....	\$512
Employee and retiree health insurance.....	444
Workers' compensation premium assessment .....	98
Turnover and cost containment adjustments .....	93
Scale benefits for county staff .....	68
Unemployment compensation .....	58
Employees' retirement .....	20
Other fringe benefit adjustments.....	107

**Other Changes**

**Real Property Valuation Program**

Office furniture and equipment for the new Baltimore and Frederick counties offices .....	307
"Fit-up" expenses for new offices in Baltimore and Frederick counties.....	125

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**Where It Goes:**

**Office of Information Technology**

Annapolis Data Center charges .....	392
Purchase of new data processing equipment for the office of information technology.....	70

**Tax Credit Program**

Restoration of one-time only funding change made in fiscal 2004 to 100% State funding of the Homeowners' Tax Credit program .....	10,000
Reduction to the Homeowners' Tax Credit program due to lower utilization .....	-1,331

**Other Changes**

DBM allocation of telecommunications expenses .....	163
Reduction in telephone expenses to reflect fiscal 2003 actual expenditures .....	-91
Other miscellaneous changes .....	-52

**Total** **\$10,983**

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

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**Impact of Cost Containment**

The fiscal 2005 allowance reflects the elimination of \$278,822, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

**Personnel**

The fiscal 2005 allowance increases personnel expenses by \$1.4 million over the fiscal 2004 working appropriation. This increase is primarily driven by two items: a \$512,000 increase in increments and \$444,000 increase in health insurance.

**Real Property Valuation Program**

The department is moving its Baltimore and Frederick counties offices in fiscal 2005. The current leases expire by the end of fiscal 2004, and moving these offices is necessary. The costs related to setting up new offices and acquiring some new equipment total about \$432,000.

**Tax Credit Program**

The Budget Reconciliation and Financing Act of 2003 (Chapter 203, Acts of 2003) contained a provision that reduced the State's Property tax credit reimbursements by \$10 million in fiscal 2004. This was a general fund reduction and, since the program is an entitlement, has the effect of requiring the local jurisdictions to find \$10 million in tax credits. The fiscal 2005 allowance restores the \$10 million. However, the fiscal 2005 allowance assumes lower utilization rates resulting in an \$8.7 million net increase to the tax credit program.

Adjusted for the increase in property tax credit funding, the department's fiscal 2005 allowance (and general funds) increase by about 2.9% over the fiscal 2004 working appropriation.

## Issues

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### 1. Downward Trend in Homeowners' Tax Credit Program Continues

Despite the restoration in the fiscal 2005 allowance of the funds reduced in fiscal 2004, the general trend in the Homeowners' Tax Credit program continues to be downward. This trend seems to be immune to economic conditions. As **Exhibit 4** shows, the program, as well as the renters' program, has been in general decline since fiscal 2000.

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**Exhibit 4**  
**Utilization of Homeowners' Tax Credit Program**  
**Fiscal 2000 – 2005**

<u>Measure</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>(Est.) FY 2004</u>	<u>(Est.) FY 2005</u>
<b>Homeowners</b>						
# of credit recipients	64,609	61,481	59,013	52,629	50,360	48,060
\$ in credits (millions)	\$49.1	\$46.7	\$44.1	\$39.8	\$39.0	\$37.7
<b>Renters</b>						
# of credit recipients	13,697	12,820	11,995	11,470	10,783	10,136
\$ in credits (millions)	\$4.0	\$3.9	\$3.1	\$2.8	\$3.2	\$3.0

Source: State Department of Assessments and Taxation; Governor's Budget Books

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Eligibility for the program is dependent on both income and property tax liability, and the last time the eligibility requirements were adjusted was in the 1998 session. Since the target populations for these programs are lower income homeowners and renters, it is important to understand the observed trend.

**Therefore, the Department of Legislative Services recommends that SDAT conduct a thorough investigation of the decline in the utilization of the Homeowners' and Renters' Tax Credit programs and report its findings to the budget committees before the 2005 session.**

## Recommended Actions

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- |   | <b><u>Amount<br/>Reduction</u></b> |    |
|---|------------------------------------|----|
| 1. Reduce the increase for the purchase of software. This flat funds the item at the fiscal 2004 level. | \$ 8,700                           | GF |

2. Adopt the following narrative:

**Tax Credit Program Utilization Is Down:** The committees are concerned about trends in the utilization of the tax credit programs. These programs were designed to be an important tax alleviation effort, but utilization has declined in recent years. The Department of Assessments and Taxation should investigate the nature and causes of this decline and submit a report to the committees before the 2005 legislative session.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Report on the decline in the usage of the Homeowners' and Renters' Tax Credit program	State Department of Assessments and Taxation	December 1, 2004

- |   | <b><u>Amount<br/>Reduction</u></b> |    |
|---|------------------------------------|----|
| 3. Reduce credit card processing fees for Internet services. This reduction still allows a 25% increase over the fiscal 2004 working appropriation.                 | 10,000                             | SF |
| 4. Reduce office supplies. This reduction flat funds office supplies at the fiscal 2004 level and represents less than a 4% reduction in the fiscal 2005 allowance. | 10,788                             | GF |

<b>Total Reductions</b>	<b>\$ 29,488</b>
<b>Total General Fund Reductions</b>	<b>\$ 19,488</b>
<b>Total Special Fund Reductions</b>	<b>\$ 10,000</b>

## ***Current and Prior Year Budgets***

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

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$96,414	\$2,398	\$0	\$0	\$98,813
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-7,882	634	0	0	-7,248
Cost Containment	0	0	0	0	0
Reversions and Cancellations	-29	-78	0	0	-107
<b>Actual Expenditures</b>	<b>\$88,504</b>	<b>\$2,954</b>	<b>\$0</b>	<b>\$0</b>	<b>\$91,457</b>
<b>Fiscal 2004</b>					
Legislative Appropriation	\$79,147	\$2,752	\$0	\$0	\$81,899
Cost Containment	-2,450	0	0	0	-2,450
Budget Amendments	0	467	0	0	467
<b>Working Appropriation</b>	<b>\$76,697</b>	<b>\$3,219</b>	<b>\$0</b>	<b>\$0</b>	<b>\$79,916</b>

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

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**Fiscal 2003**

In fiscal 2003 SDAT had \$7.8 million in general fund budget amendments. Almost all of this (\$7.2 million) was due to cost containment taken in the Homeowners' Tax Credit program. These funds were available due to the less than anticipated utilization rate of the program. The special funds budget amendments of \$634,000 are all related to higher than expected usage of the Business Charter Unit.

**Object/Fund Difference Report  
Department of Assessments and Taxation**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	735.50	695.50	695.50	0	0%
02 Contractual	2.50	0	0	0	0.0%
<b>Total Positions</b>	<b>738.00</b>	<b>695.50</b>	<b>695.50</b>	<b>0</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 37,299,825	\$ 35,610,053	\$ 37,289,251	\$ 1,679,198	4.7%
02 Technical & Spec Fees	76,078	5,500	0	-5,500	-100.0%
03 Communication	1,255,246	1,336,388	1,413,352	76,964	5.8%
04 Travel	318,496	338,468	321,263	-17,205	-5.1%
06 Fuel & Utilities	18,640	26,258	19,202	-7,056	-26.9%
07 Motor Vehicles	161,237	140,712	160,547	19,835	14.1%
08 Contractual Services	3,811,440	3,081,944	3,558,327	476,383	15.5%
09 Supplies & Materials	356,490	319,746	336,111	16,365	5.1%
10 Equip - Replacement	78,161	10,216	380,654	370,438	3626.1%
12 Grants, Subsidies, and Contracts	46,393,538	37,131,000	45,800,000	8,669,000	23.3%
13 Fixed Charges	1,688,122	1,915,741	1,899,299	-16,442	-0.9%
<b>Total Objects</b>	<b>\$ 91,457,273</b>	<b>\$ 79,916,026</b>	<b>\$ 91,178,006</b>	<b>\$ 11,261,980</b>	<b>14.1%</b>
<b>Funds</b>					
01 General Fund	\$ 88,503,475	\$ 76,697,126	\$ 87,853,661	\$ 11,156,535	14.5%
03 Special Fund	2,953,798	3,218,900	3,324,345	105,445	3.3%
<b>Total Funds</b>	<b>\$ 91,457,273</b>	<b>\$ 79,916,026</b>	<b>\$ 91,178,006</b>	<b>\$ 11,261,980</b>	<b>14.1%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary  
Department of Assessments and Taxation**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
00 State Department of Assessments and Taxation	\$ 91,457,273	\$ 81,899,152	\$ 79,916,026	-12.6%	\$ 91,178,006	14.1%
<b>Total Expenditures</b>	<b>\$ 91,457,273</b>	<b>\$ 81,899,152</b>	<b>\$ 79,916,026</b>	<b>-12.6%</b>	<b>\$ 91,178,006</b>	<b>14.1%</b>
General Fund	\$ 88,503,475	\$ 79,147,275	\$ 76,697,126	-13.3%	\$ 87,853,661	14.5%
Special Fund	2,953,798	2,751,875	3,218,900	9.0%	3,324,345	3.3%
Federal Fund	0	-\$ 0	0	0.0%	0	0.0%
<b>Total Appropriations</b>	<b>\$ 91,457,273</b>	<b>\$ 81,899,152</b>	<b>\$ 79,916,026</b>	<b>-12.6%</b>	<b>\$ 91,178,006</b>	<b>14.1%</b>

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.