

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

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 09</u> <u>Actual</u>	<u>FY 10</u> <u>Working</u>	<u>FY 11</u> <u>Allowance</u>	<u>FY 10-11</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$100,438	\$102,441	\$116,594	\$14,153	13.8%
Contingent & Back of Bill Reductions	0	0	-1,005	-1,005	
<b>Adjusted General Fund</b>	<b>\$100,438</b>	<b>\$102,441</b>	<b>\$115,589</b>	<b>\$13,149</b>	<b>12.8%</b>
Special Fund	5,195	6,389	5,441	-948	-14.8%
Contingent & Back of Bill Reductions	0	0	-76	-76	
<b>Adjusted Special Fund</b>	<b>\$5,195</b>	<b>\$6,389</b>	<b>\$5,366</b>	<b>-\$1,024</b>	<b>-16.0%</b>
Reimbursable Fund	1,496	2,192	0	-2,192	-100.0%
<b>Adjusted Reimbursable Fund</b>	<b>\$1,496</b>	<b>\$2,192</b>	<b>\$0</b>	<b>-\$2,192</b>	<b>-100.0%</b>
<b>Adjusted Grand Total</b>	<b>\$107,129</b>	<b>\$111,021</b>	<b>\$120,955</b>	<b>\$9,934</b>	<b>8.9%</b>

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- The allowance includes a deficiency appropriation of \$13,290,336. The deficiency will be allocated as follows: (1) \$5.0 million to replace the appropriation borrowed from the Urban Enterprise Zone Program in order to address the fiscal 2009 deficiency in funding for the Homeowners' Tax Credit Program; (2) \$7.8 million to supplement the fiscal 2010 appropriation for the Homeowners' Tax Credit Program; and (3) \$500,000 to address the nearly \$1.0 million budget shortfall in personnel expenditures in fiscal 2009.
- The fiscal 2011 allowance increases \$9,933,752, or 8.9%, above the working appropriation when funds are adjusted for across-the-board reductions; however, after adding the Homeowners' Program deficiency to the working appropriation, the increase is \$2,133,752, or 1.8%.
- The fiscal 2011 allowance reflects the first year of funding for Base Realignment and Closure Revitalization and Incentive Zones credits.

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

For further information contact: Chantelle M. Green

Phone: (410) 946-5530

*E50C – Department of Assessments and Taxation*

- The implementation of the Assessment Administration and Valuation System (AAVS) represents approximately \$3.0 million of the decline in the department’s special and reimbursable funds. The Major Information Technology Development Project Fund includes \$885,749 for AAVS in fiscal 2011.

***Personnel Data***

---

	<b><u>FY 09 Actual</u></b>	<b><u>FY 10 Working</u></b>	<b><u>FY 11 Allowance</u></b>	<b><u>FY 10-11 Change</u></b>
Regular Positions	628.00	626.00	591.00	-35.00
Contractual FTEs	<u>4.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>632.00</b>	<b>627.00</b>	<b>592.00</b>	<b>-35.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	29.67	5.02%
Positions and Percentage Vacant as of 12/31/09	50.00	7.99%

- Cost containment efforts reduce the department’s position complement by 35. These positions primarily comprise vacant real property assessor and administrative positions within the department’s Real Property Valuation Program.
- Turnover expectancy is increased from 4.78 to 5.02%.
- As of December 31, 2009, the vacancy rate was 7.99%. Thirty-five of these vacant positions are scheduled to be abolished in the fiscal 2011 allowance.

## *Analysis in Brief*

---

### **Major Trends**

***Assessment Values Are within the Acceptable Range:*** The department's accuracy measures are within an acceptable range of performance.

***Timeliness Measures within the Business Property Valuation Program Decline Slightly:*** The percent of returns assessed by December 1 declined by 3.4 percentage points in fiscal 2009.

### **Issues**

***Estimating Homeowners' Tax Credit Payments Proves More Difficult Than Expected:*** In recent years, actual expenditures for the Homeowners' Tax Credit Program have been well below projected expenditures. The difficulty in estimating homeowners' tax credit payments was due, in part, to legislation that was adopted during the 2006 session, which altered several provisions of the program. **The State Department of Assessments and Taxation (SDAT) should comment on the factors used to determine fiscal 2010 and 2011 estimates for the Homeowners' Tax Credit Program.**

***Personnel Reductions within the Real Property and Business Property Programs:*** Between fiscal 2001 and 2010, the number of positions within the Real Property Valuation Program declined by approximately 3.0% annually. During the same time frame, the number of positions within the Business Valuation Program declined by 0.1% annually. While cost containment efforts have resulted in the elimination of numerous positions within these programs, the department's ability to effectively perform its assessment function is critical given that property tax revenues are a large share of local revenues. **SDAT should comment on the impact of personnel reductions on its ability to conduct real and personal property assessments.**

***Fiscal 2009 Closeout Audit:*** The Office of Legislative Audits' statewide review of budget closeout transactions for fiscal 2009 indicated that SDAT reported \$5,958,347 in unprovided for payables. **SDAT should comment to the committees as to why the department overspent its fiscal 2009 appropriation. SDAT should also comment on what efforts are being undertaken by the department to ensure that a similar situation does not occur in the future. Finally, SDAT should comment on whether the \$500,000 fiscal 2010 deficiency appropriation for personnel expenses will be sufficient to absorb the nearly \$1 million budget deficit in this area in fiscal 2009.**

## Recommended Actions

	<u>Funds</u>
1. Reduce tax credit payments for Renters' Tax Credit Program.	\$ 100,000
<b>Total Reductions</b>	<b>\$ 100,000</b>

## Updates

***Final Report on Homestead Tax Credit Applications:*** In order to reduce fraud, Chapters 564 and 565 of 2007 were enacted to require homeowners to apply to the department for the homestead tax credit. To date, SDAT has received over 568,000 applications during the first two years of the Homestead Tax Credit Application Program. SDAT reports that over 6,000 homestead credits have been removed since the program's inception two years ago.

***Report on Electronic Access and Submission of Personal Property Return Form 1:*** The 2009 *Joint Chairmen's Report* directed SDAT to evaluate the feasibility of providing electronic access and submission of Personal Property Form 1.

**E50C**  
**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: the Homeowners' Property 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**

**Fiscal 2009 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 ASR is 90 to 110%. As illustrated in **Exhibit 1**, the department's fiscal 2009 ASR of 97% was within the acceptable performance range.

---

**Exhibit 1**  
**Accuracy Measures**  
**State Department of Assessments and Taxation**  
**Fiscal 2005-2011**

<u>Measure</u>	<u>Goal</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Est.</u> <u>2010</u>	<u>Est.</u> <u>2011</u>	<u>Ann.</u> <u>Chg.</u> <u>05-09</u>
Assessment-to-sales ratio	90-110%	85.9%	89.3%	89.5%	96.2%	97.0%	97.0%	97.0%	3.08%
Coefficient of dispersion	Less than 15.00	13.25	11.25	11.00	11.00	11.00	11.00	11.00	-4.55%
Price-related differential	0.98-1.03	1.00	1.00	1.00	1.01	1.00	1.00	1.00	0.00%

Source: State Department of Assessments and Taxation

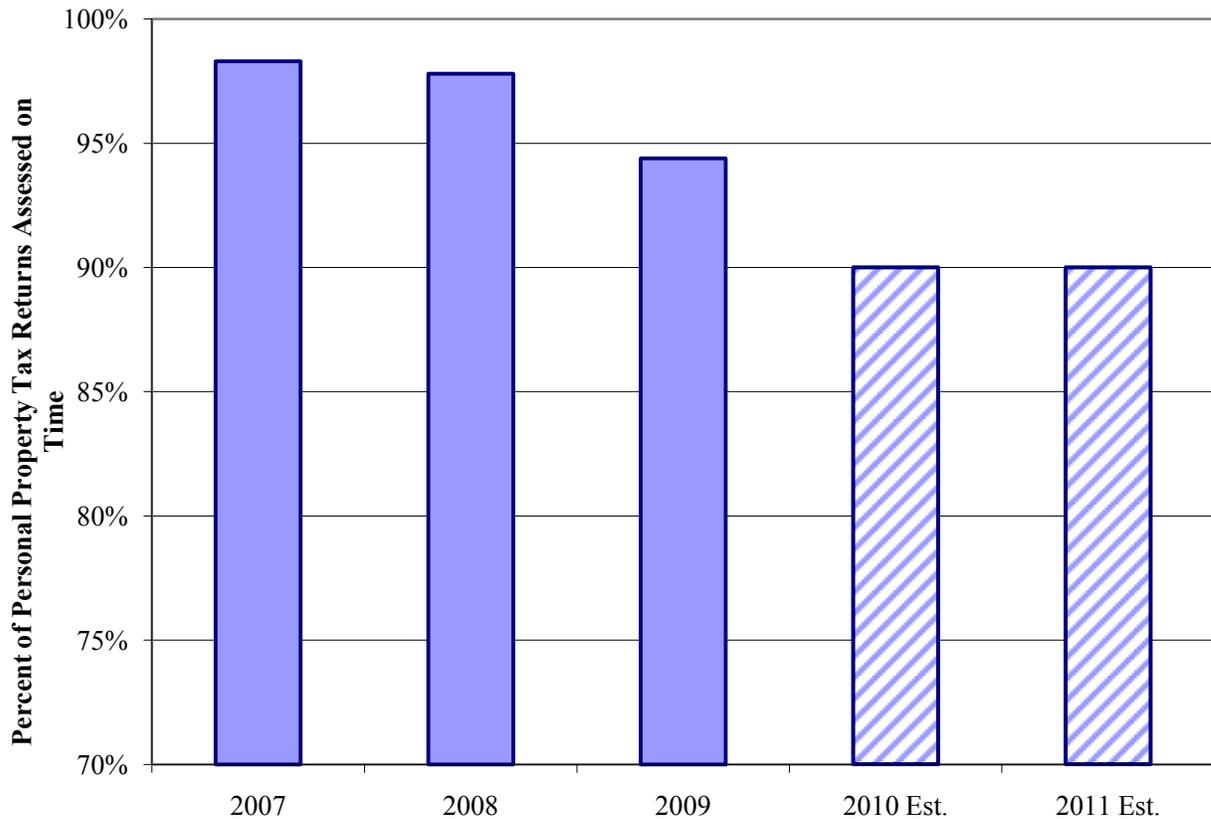
---

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 perfectly 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.

### **Timeliness Measures within the Business Property Valuation Program Decline Slightly**

The Business Property Valuation Program administers the tax laws governing the assessment of personal property, property tax incentives for qualifying businesses, and utility companies that are subject to property and franchise taxes. The division strives to appraise all taxable property on an annual basis by December 1. As shown in **Exhibit 2**, the percent of returns assessed by December 1 declined by 3.4 percentage points in fiscal 2009 and is anticipated to decline by an additional 4.4 percentage points in fiscal 2010. According to SDAT, the decline in the percentage of returns assessed in a timely fashion is due to employee vacancies and insufficient personnel. **The department should comment on its ability to assess personal property returns in a timely fashion going forward.**

**Exhibit 2**  
**Timeliness Measures**  
**State Department of Assessments and Taxation**  
**Fiscal 2007-2011**



Source: State Department of Assessments and Taxation

**Fiscal 2010 Actions**

**Proposed Deficiency**

The fiscal 2011 allowance includes a deficiency appropriation of \$13,290,336. The deficiency will be allocated as follows: (1) \$5.0 million to replace the appropriation borrowed from the Urban Enterprise Zone Program in order to address the fiscal 2009 deficiency in funding for the Homeowners' Tax Credit Program; (2) \$7.8 million to supplement the fiscal 2010 appropriation for the Homeowners' Tax Credit Program; and (3) \$500,000 to address the nearly \$1.0 million budget shortfall in personnel expenditures in fiscal 2009.

## **Impact of Cost Containment**

SDAT was required to reduce the total budget by \$1.8 million due to cost containment actions taken by the Board of Public Works (BPW) in fiscal 2010. Cost savings were primarily achieved by:

- implementing employee furloughs (\$949,053);
- reducing the Urban Enterprise Zone Tax Credit (\$657,048); and
- across-the-board reductions in communications, salaries and wages, and fixed charges (\$185,689).

## **Expedited Service Fee Fund Transfer**

The Budget Reconciliation and Financing Act of 2009 authorized the transfer of \$435,721 from the department's special administrative fund (commonly referred to as the Expedited Service Fee Fund) to the general fund. The transfer of an additional \$3 million from the Expedited Service Fee Fund to the general fund is among those actions proposed by the Governor to balance the fiscal 2010 budget. Budget reconciliation and financing legislation has been introduced during the 2010 legislative session in order to make this transfer. Following both of these transfers, it is estimated that the remaining balance in this fund will be nearly depleted.

## **Proposed Budget**

As shown in **Exhibit 3**, the fiscal 2011 allowance increases by \$9,933,752, or 8.9%, when funds are adjusted for across-the-board reductions. The increase in the budget is largely attributed to expenditures within the property tax credit programs. Absent tax credit and information technology funding, the budget declines by \$294,023, or 0.6%.

## **Position Abolitions**

The fiscal 2011 allowance abolishes 35 positions throughout the department's Real Property Valuation, Office of Information Technology, and Property Tax Credit programs. Over 30 of these positions are located within the department's Real Property Valuation Program. Cost savings associated with the position abolitions total approximately \$2 million.

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

<b>How Much It Grows:</b>	<b><u>General</u> <u>Fund</u></b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Reimb.</u> <u>Fund</u></b>	<b><u>Total</u></b>
2010 Working Appropriation	\$102,441	\$6,389	\$2,192	\$111,021
2011 Allowance	<u>116,594</u>	<u>5,441</u>	<u>0</u>	<u>122,035</u>
Amount Change	\$14,153	-\$948	-\$2,192	\$11,014
Percent Change	13.8%	-14.8%	-100.0%	9.9%
 Back of Budget Bill Reductions	 -\$1,005	 -\$76	 \$0	 -\$1,080
Adjusted Change	\$13,149	-\$1,024	-\$2,192	\$9,934
Adjusted Percent Change	12.8%	-16.0%	-100.0%	8.9%

**Where It Goes:**

**Personnel Expenses**

Thirty-five position abolitions.....	-\$2,025
Employees' retirement .....	448
Employee and retiree health insurance (after reducing fiscal 2011 for across-the-board reductions).....	436
Employee earnings (after reducing fiscal 2011 for furloughs).....	172
Local county benefit program .....	137
Turnover adjustments.....	-159
Workers' compensation (after reducing fiscal 2011 for across-the-board reductions) .....	-78
Other adjustments.....	-5

**Other Changes**

***Tax Credit Programs***

Increase in expected Enterprise Zone Tax Credits .....	2,710
Increase in expected Homeowners' Tax Credits .....	10,218
Base Realignment and Closure Revitalization and Incentive Zone Credits.....	300

***Information Technology***

Contractual services for Assessment Administration and Valuation System.....	-3,000
Annapolis Data Center expenditures.....	800

*E50C – Department of Assessments and Taxation*

**Where It Goes:**

***Other Expenses***

Increase in rent .....	256
Reduction in communication expenses .....	-160
Reduction in replacement equipment .....	-98
Other .....	-18
<b>Total</b>	<b>\$9,934</b>

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

---

**Tax Credit Programs**

As shown in **Exhibit 4**, the fiscal 2011 allowance for the tax credit programs increases by \$13.2 million, primarily due to an increase in funding within the Homeowners' and Urban Enterprise Zone Tax Credit programs. The fiscal 2011 allowance also reflects the first year of funding for Base Realignment and Closure (BRAC) Revitalization and Incentive Zones credits.

---

**Exhibit 4**  
**Tax Credit Payments**  
**Fiscal 2008-2011**

	<b><u>2008</u></b> <b><u>Actual</u></b>	<b><u>2009</u></b> <b><u>Actual</u></b>	<b><u>2010 Working</u></b> <b><u>Appropriation</u></b>	<b><u>2011</u></b> <b><u>Allowance</u></b>	<b><u>2010-11</u></b> <b><u>Change</u></b>
Homeowners' Tax Credit Program	\$45,248,405	\$50,343,038	\$45,600,000	\$55,818,046	\$10,218,046
Renters' Tax Credit Program	2,451,650	2,223,962	2,300,000	2,300,000	0
Urban Enterprise Zone Tax Credit Program	8,616,816	9,700,295	12,483,902	15,193,631	2,709,729
Base Realignment and Closure Commission	0	0	0	300,000	300,000
<b>Total Tax Credit Payments</b>	<b>\$56,316,871</b>	<b>\$62,267,295</b>	<b>\$60,383,902</b>	<b>\$73,611,677</b>	<b>\$13,227,775</b>

Note: Fiscal 2009 expenditures for the Urban Enterprise Zone Tax Credit Program have been adjusted to reflect actual spending. The fiscal 2011 allowance includes \$4,990,336 to replace the appropriation borrowed from the Urban Enterprise Zone Tax Credit Program in order to address the fiscal 2009 deficiency in funding for the Homeowners' Tax Credit Program.

Source: 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.

While the Renter’s Tax Credit Program remains level funded at \$2.3 million, the allowance includes an additional \$10.2 million in funding for the Homeowners’ Tax Credit Program. However, as shown in **Exhibit 5**, when the fiscal 2010 working appropriation is adjusted to reflect the anticipated deficiency appropriation of \$7.8 million, the allowance increases by \$2.4 million. The increase in funding for the Homeowners’ Tax Credit Program appears to be driven by an increase in the anticipated number of eligible program participants as well as an increase in the average dollar amount of the homeowners’ tax credit from \$1,096 to \$1,140. **The department should comment on whether the \$7.8 million deficiency appropriation will be sufficient to satisfy anticipated fiscal 2010 tax credit obligations.**

---

**Exhibit 5**  
**Homeowners’ Property Tax Credit Expenditures**  
**Fiscal 2008-2011**  
**(\$ in Thousands)**

	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Actual</u>	<u>2010 Working</u> <u>Appropriation</u>	<u>2011</u> <u>Allowance</u>	<u>2010-11</u> <u>\$ Change</u>	<u>2010-11</u> <u>% Change</u>
Homeowners' Property Tax Credit	\$45,248	\$50,343	\$45,600	\$55,818	\$10,218	22%
Deficiency Appropriation	0	0	7,800	0	-7,800	n/a
<b>Adjusted Homeowners’ Property Tax Credit</b>	<b>\$45,248</b>	<b>\$50,343</b>	<b>\$53,400</b>	<b>\$55,818</b>	<b>\$2,418</b>	<b>5%</b>

Source: State Department of Assessments and Taxation; Department of Legislative Services

---

## The 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 6**, the number of businesses locating in enterprise zones is projected to increase from 752 to 854 between fiscal 2010 and 2011. Similarly, the amount of enterprise tax credits is anticipated to increase by approximately \$2.7 million. According to the department, the amount of the enterprise tax credit is determined based upon the projected increase in the assessed value of the properties due to renovations and capital improvements. As shown, developments in Baltimore City, Cecil County, and Prince George’s County appear to be driving much of the projected fiscal 2011 increase.

**Exhibit 6**  
**Enterprise Zone Property Tax Credit**  
**Fiscal 2010-2011**

<u>Enterprise Zones</u>	2010		2011	
	<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	27	\$307,866	24	\$284,558
Baltimore City	234	6,773,234	293	7,947,389
Baltimore	36	450,391	43	613,968
Calvert	16	42,550	14	41,217
Cecil	22	817,745	24	1,293,016
Dorchester	15	77,438	18	69,264
Garrett	24	85,610	27	107,045
Harford	143	1,540,974	146	1,404,368
Montgomery	66	1,107,512	89	1,127,680
Prince George’s	36	600,217	48	1,524,657
St. Mary’s	23	46,746	15	33,967
Somerset	2	7,725	2	8,241
Washington	44	503,428	44	571,438
Wicomico	57	111,326	61	158,067
Worcester	7	11,140	6	8,756
<b>Total</b>	<b>752</b>	<b>\$12,483,902</b>	<b>854</b>	<b>\$15,193,631</b>

Source: State Department of Assessments and Taxation

## **Base Realignment and Closure Revitalization and Incentive Zones Credit Program**

Chapter 338 of 2008, which was later modified by Chapter 728 of 2009, created financial incentives for local subdivisions with approved BRAC zones. The fiscal 2011 allowance includes \$300,000 for two properties that qualify for the credit. These properties are located in the City of Aberdeen and in the Odenton Town Center.

## **Other Expenditures**

Other significant increases/decreases include the following: (1) an additional \$800,000 in Annapolis Data Center expenditures; (2) \$275,758 in additional rent expenditures due to cost containment reductions and escalating lease rates; and (3) a \$3 million reduction in information technology expenditures due to the implementation of AAVS.

## **Impact of Cost Containment**

The fiscal 2011 budget reflects several across-the-board actions to be allocated by the Administration. This includes a combination of employee furloughs and government shut-down days similar to the plan adopted in fiscal 2010; a reduction in overtime based on accident leave management; streamlining of State operations; hiring freeze and attrition savings; a change in the injured workers' settlement policy and administrative costs; and a savings in health insurance to reflect a balance in that account. For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected actions relating to employee furloughs, health insurance, and the Injured Workers' Insurance Fund cost savings.

## Issues

---

### 1. Estimating Homeowners' Tax Credit Payments Proves More Difficult Than Expected

The Homeowners' (Circuit Breaker) 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. The Homeowners' Tax Credit is a State-funded program, with the State reimbursing local governments for the cost of the credit against local property taxes. This program, initiated in 1975, was originally limited to homeowners age 60 and older and homeowners with disabilities but was expanded to homeowners of all ages in 1978.

Prior to Chapter 27 of 2006, the program had not been significantly altered in several years; the maximum assessment against which the credit may be calculated had not increased since 1990, and the income brackets were last changed in 1998. This, combined with an increase in home values and an increase in homeowner incomes, led to a decline in the program's usage. Chapter 27 addressed these issues and made several changes to the program. In response to these changes, the fiscal 2007 appropriation included an additional \$16.7 million based on the anticipated increase in the program resulting from the legislation. However, in the years to follow, program costs were much lower than estimated as fewer credits were being requested than anticipated. **Exhibit 7** provides a comparison of prior years' estimates at the time the budget was being considered to actual tax credit payments for fiscal 2007 through 2009.

---

#### Exhibit 7 Trends in the Homeowners' Tax Credit Program Fiscal 2007-2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Homeowners' Tax Credit Payments (\$ in Thousands)</b>			
Prior Year Estimate	\$56,701	\$50,301	\$52,200
Actual Expenditures	45,618	45,248	50,343
<b>Difference</b>	<b>\$11,083</b>	<b>\$5,053</b>	<b>\$1,857</b>
<b>Number of Homeowners' Credits Issued</b>			
Prior Year Estimate	53,078	53,700	49,300
Actual Credits Issued	48,290	46,618	47,781
<b>Difference</b>	<b>4,788</b>	<b>7,082</b>	<b>1,519</b>
<b>Average \$ Amount of a Homeowner's Credit</b>			
Prior Year Estimate	\$1,068	\$1,097	\$1,059
Actual Average \$ Amount of a Homeowner's Credit	944	971	1,054
<b>Difference</b>	<b>\$124</b>	<b>\$126</b>	<b>\$5</b>

Note: Fiscal 2007 reflects estimates provided at the time the fiscal 2008 budget was considered. The fiscal 2009 appropriation was later reduced to \$47.2 million due to cost containment actions taken by the Board of Public Works.

Source: Governor's Budget Books, Fiscal 2008-2009; Department of Legislative Services

---

According to SDAT, fiscal 2010 and 2011 estimates are based on a number of factors such as recent trends in the number of applications received, the dollar amount of the average credit being issued, and the average income reported by applicants. **SDAT should comment on the factors used to determine fiscal 2010 and 2011 estimates for the Homeowners' Tax Credit Program.**

## **2. Personnel Reductions within the Real Property Valuation and Business Property Valuation Programs**

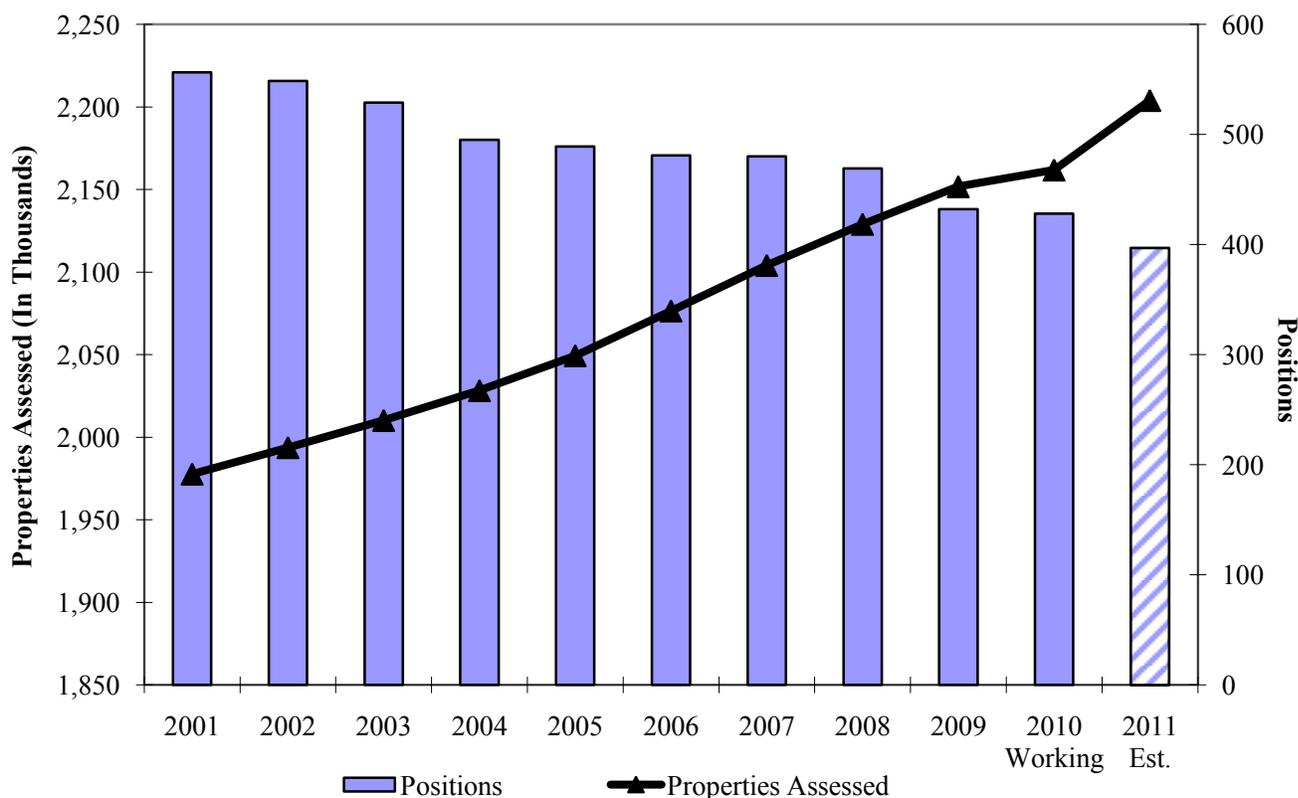
The fiscal 2011 allowance abolishes 35 positions throughout the department's Real Property Valuation, Office of Information Technology, and Property Tax Credit programs. Thirty-two of these positions are located within the department's Real Property Valuation and Business Property Valuation programs.

### **The Real Property Valuation Program**

The Real Property Valuation Division is responsible for performing assessments on one-third of all real property in the State every year. Although budget reductions have resulted in the elimination of numerous positions within the division, the performance of this function is instrumental to both the State and local jurisdictions as property tax revenues are not only used to support debt service on State general obligation bonds but also serve as one of the larger sources of revenue for local jurisdictions.

**Exhibit 8** shows that between fiscal 2001 and 2010, the number of positions within the program has declined by approximately 3% annually. However, during the same time frame, the number of properties assessed increased by approximately 1% annually. According to the department, there are currently 197 "filled" real property assessor positions. The department reports that staff reductions have impeded local assessors' ability to conduct physical inspections of properties.

**Exhibit 8  
Real Property Valuation Program  
Position and Property Value Assessment History  
Fiscal 2001-2011**



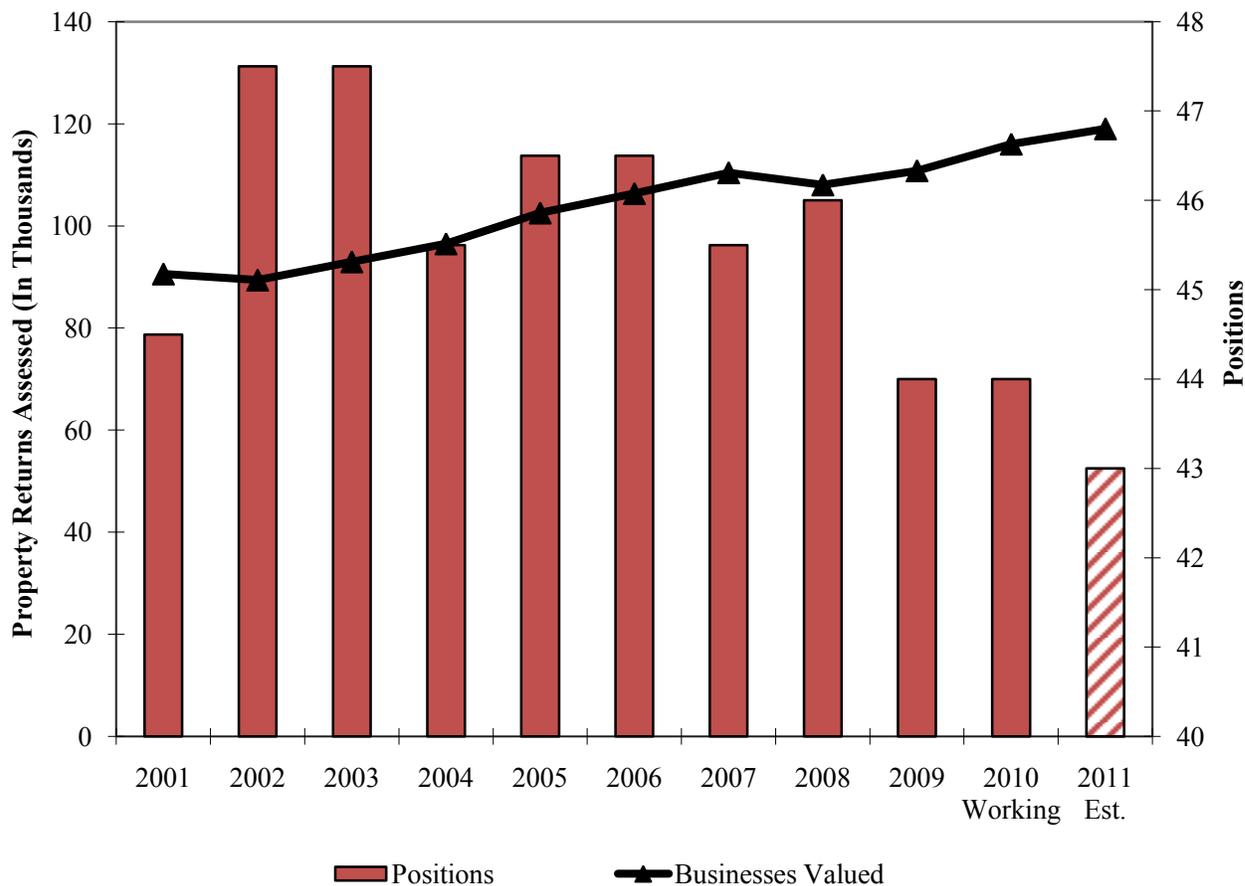
Source: Governor’s Budget Books, Fiscal 2002-2010

**Business Property Valuation Program**

The Business Property Valuation Program administers the tax laws governing the assessment of personal property, property tax incentives for qualifying businesses, and utility companies that are subject to property and franchise taxes.

**Exhibit 9** shows that between fiscal 2001 and 2010, the number of positions within the program has remained fairly flat, declining by approximately 0.1% annually. Conversely, during the same time frame, the number of returns assessed increased by approximately 2.8% annually. SDAT reports that there are currently 21 “filled” business property valuation assessor positions. As previously discussed, employee vacancies and position reductions have impacted the department’s ability to assess business property returns in a timely fashion.

**Exhibit 9**  
**Business Property Valuation Program**  
**Position and Property Value Assessment History**  
**Fiscal 2001-2011**



Source: Governor's Budget Books, Fiscal 2002-2010

**SDAT should comment on the impact of personnel reductions on its ability to conduct real and personal property assessments.**

### **3. Fiscal 2009 Closeout Audit**

The Office of Legislative Audits' statewide review of budget closeout transactions for fiscal 2009 indicated that SDAT reported \$5,958,347 in unprovided for payables. According to the department, \$4,990,336 of the carryover expenditures was the result of deficiencies in tax credit payment funding for the Homeowners' Tax Credit Program. The remaining \$968,011 was the result of budget shortfalls for personnel expenditures.

**SDAT should comment to the committees as to why the department overspent its fiscal 2009 appropriation. SDAT should also comment on what efforts are being undertaken by the department to ensure that a similar situation does not occur in the future. Finally, SDAT should comment on whether the \$500,000 fiscal 2010 deficiency appropriation for personnel expenses will be sufficient to absorb the nearly \$1 million budget deficit in this area in fiscal 2009.**

## ***Recommended Actions***

---

	<b><u>Amount Reduction</u></b>	
1. Reduce tax credit payments for Renters' Tax Credit Program based on prior years' actual expenditures. If adopted, this action will appropriate \$2.2 million for renters' tax credit payments in fiscal 2011.	\$ 100,000	GF
<b>Total General Fund Reductions</b>	<b>\$ 100,000</b>	

## Updates

---

### 1. Final Report on Homestead Tax Credit Applications

Chapters 564 and 565 of 2007 require SDAT, in consultation with the Comptroller, to conduct a two-part study on the implementation of the homestead property tax credit application process. The findings of the final report are summarized below.

#### Background

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.

The Homestead Tax Credit Program provides tax credits against property taxes for residential properties for the amount of property taxes resulting from an annual assessment increase that exceeds a certain percentage or “cap” in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the rate. Currently, 20 of the 24 local jurisdictions have assessment caps below 10% as illustrated in **Exhibit 10**.

---

#### Exhibit 10 Counties with Assessment Caps Below 10% in Fiscal 2011

<u>County</u>	<u>Cap</u>	<u>County</u>	<u>Cap</u>	<u>County</u>	<u>Cap</u>
Allegany	7%	Charles	7%	Prince George’s	0%
Anne Arundel	2%	Dorchester	5%	Queen Anne’s	5%
Baltimore City	4%	Frederick	5%	St. Mary’s	5%
Baltimore	4%	Garrett	5%	Talbot	0%
Caroline	5%	Harford	5%	Washington	5%
Carroll	7%	Howard	5%	Worcester	3%
Cecil	8%	Kent	5%		

Source: State Department of Assessments and Taxation

---

## **Chapters 564 and 565 of 2007**

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. In recent years, the increasing number of recipients and the inability to verify eligibility has 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.

## **Education and Outreach**

According to the department, the most significant method of outreach utilized by the department to notify homeowners of the application process has been to include a copy of the homestead application with the triennial assessment notices. The department also maintains information regarding the need to file a homestead application on its web site. Lastly, every purchaser of a residential property after December 2007 has received a special mailing containing the application form. Currently, filers are allowed to submit applications by telephone, mail, or online via the department's web site.

Last winter, during the second year of the homestead application mailings with assessment notices, the department sent out 471,068 applications with the triennial assessment notice. According to the department, approximately 286,000, or 61%, of the homestead applications have been received. In total, SDAT has received over 568,000 applications during the first two years of the Homestead Tax Credit Application Program. The final set of application forms will be mailed out with the last group of triennial assessment notices in January 2010.

## **Homestead Credit Removal**

As shown in **Exhibit 11**, audits of the applications processed to date have resulted in the removal of over 6,000 homestead credits since the program's inception two years ago. The elimination of these credits has yielded an additional \$15.7 million in tax revenue to the State and county governments from the July 2009 tax year (see **Exhibit 12**). SDAT reports that it will make every attempt to keep the relevant committees of the General Assembly abreast of the agency's experience with the homestead application process. The department remains committed to ensuring that no homeowner entitled to receive the homestead tax credit is denied in 2013 for failure to submit an application due to age, infirmity, or physical disability.

**Exhibit 11**  
**Homestead Property Tax Credit Removals**  
**Calendar 2008-2009**

<u>County</u>	<u>Denied Applications</u>
Allegany	167
Anne Arundel	532
Baltimore City	948
Baltimore	701
Calvert	102
Caroline	38
Carroll	122
Cecil	103
Charles	150
Dorchester	73
Frederick	183
Garrett	153
Harford	233
Howard	210
Kent	39
Montgomery	772
Prince George's	807
Queen Anne's	53
St. Mary's	181
Somerset	36
Talbot	66
Washington	133
Wicomico	114
Worcester	291
<b>Total</b>	<b>6,207</b>

Source: State Department of Assessments and Taxation

---

**Exhibit 12**  
**Homestead Property Tax Credit Removal**  
**State and Local Revenues**  
**2009 Tax Year**

<u>County</u>	<u>State Revenue</u>	<u>Local Revenue</u>	<u>Total Revenue</u>
Allegany	\$1,460	\$16,213	\$17,673
Anne Arundel	67,709	1,400,877	1,468,586
Baltimore City	23,931	759,715	783,647
Baltimore	106,749	2,253,180	2,359,929
Calvert	16,419	130,785	147,203
Caroline	2,702	34,463	37,165
Carroll	13,329	217,355	230,684
Cecil	8,212	105,020	113,231
Charles	34,181	426,233	460,414
Dorchester	3,634	46,783	50,417
Frederick	19,563	384,250	403,813
Garrett	1,318	28,281	29,599
Harford	20,971	235,421	256,393
Howard	53,336	1,149,434	1,202,770
Kent	4,502	77,924	82,427
Montgomery	173,242	1,415,322	1,588,564
Prince George's	219,537	5,440,085	5,659,622
Queen Anne's	12,670	166,476	179,145
St. Mary's	12,734	183,549	196,283
Somerset	1,060	8,738	9,798
Talbot	11,124	147,108	158,232
Washington	1,777	24,274	26,051
Wicomico	6,675	48,577	55,252
Worcester	9,256	124,309	133,565
<b>Total</b>	<b>\$826,090</b>	<b>\$14,824,374</b>	<b>\$15,650,464</b>

Source: State Department of Assessments and Taxation

---

## **2. Report on Electronic Access and Submission of Personal Property Return Form 1**

The 2009 *Joint Chairmen's Report* directed SDAT to evaluate the feasibility of providing electronic access and submission of Personal Property Form 1. In December 2009, SDAT submitted its report to the budget committees outlining its findings, summarized below.

### **Design and Development Funding Deleted by General Assembly**

According to the report, providing electronic access and submission of the department's Personal Property Return Form 1 was initially considered by the General Assembly during the 2002 legislative session. At that time, SDAT considered electronic filing of personal property forms to be a noteworthy initiative for several reasons: (1) certain members of the business filing community expected this level of service; (2) electronic filing would eliminate the keying of significant components of the tax return information by agency employees; and (3) it would improve the accuracy of information submitted by return filers as well as data entry by SDAT personnel. However, while noting that electronic filing of personal property returns was a worthy project, the General Assembly opted to delete the \$440,000 in design and development funding because it was "not an essential project" which could be deferred to a future fiscal year.

### **Current Cost Estimate in Excess of \$900,000**

In developing a cost estimate, SDAT requested that its longstanding Internet vendor, RESI Information Systems Solutions (RESI), update the prior proposal regarding the electronic filing of personal property forms via the department's web site. The estimate included the potential costs of building and maintaining a new, web-enabled application to be used by businesses to file their personal property return form along with payment of the \$300 annual report fee. In summary, RESI estimated that it would cost approximately \$644,000 to implement the new system. This estimate includes funding for costs related to system development, annual system maintenance, new software and peripheral devices, and the development of a check handling function. SDAT also noted that due to recent cost containment actions, five additional positions (three new assessor positions, one administrative officer, and one program analyst) would be required to implement the new system at a cost of \$258,306. Lastly, the department noted that the aforementioned estimate excludes other fees such as third party check handling transaction and set-up cost fees.

## *Current and Prior Year Budgets*

---

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

	<b><u>General</u></b> <b><u>Fund</u></b>	<b><u>Special</u></b> <b><u>Fund</u></b>	<b><u>Federal</u></b> <b><u>Fund</u></b>	<b><u>Reimb.</u></b> <b><u>Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2009</b>					
Legislative Appropriation	\$110,423	\$5,241	\$0	\$0	\$115,664
Deficiency Appropriation	486	140	0	0	626
Budget Amendments	1,054	58	0	3,537	4,649
Cost Containment	-11,401	-66	0	0	-11,467
Reversions and Cancellations	-125	-178	0	-2,041	-2,344
<b>Actual Expenditures</b>	<b>\$100,437</b>	<b>\$5,195</b>	<b>\$0</b>	<b>\$1,496</b>	<b>\$107,128</b>
<b>Fiscal 2010</b>					
Legislative Appropriation	\$104,171	\$5,642	\$0	\$0	\$109,813
Cost Containment	-1,731	-61	0	0	-1,792
Budget Amendments	0	808	0	2,192	3,000
<b>Working Appropriation</b>	<b>\$102,440</b>	<b>\$6,389</b>	<b>\$0</b>	<b>\$2,192</b>	<b>\$111,021</b>

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

---

## **Fiscal 2009**

In fiscal 2009, the total budget for the State Department of Assessments and Taxation decreased by \$8.5 million. The general fund appropriation decreased by a net \$10.0 million due to a \$1.5 million increase in funding and a \$11.4 million reduction in expenditures due to cost containment actions taken by the Board of Public Works.

The general fund appropriation increased by \$1.5 million due to the following:

- a \$648,785 cost-of-living adjustment (COLA) that was centrally budgeted in the Department of Budget and Management (DBM);
- a \$486,247 deficiency appropriation for a court-ordered judgment that required the State to pay back wages and interest due to an unlawful employee termination;
- a \$320,000 realignment of Annapolis Data Center expenditures based upon actual usage;
- a realignment of health insurance funding to the department (\$143,234); and
- a \$58,000 decrease in telecommunications expenditures due to a realignment of statewide communications expenses.

The general fund appropriation decreased by \$11.4 million due to the following:

- a \$7.0 million reduction in the Homeowners' Property Tax Credit Program;
- the abolition of 43 vacant positions within the department (\$1.6 million);
- across-the-board reductions in health insurance, Other Post Employment Benefits, travel, and vehicles (\$1.3 million);
- a reduction in overhead and administrative costs within the department (\$598,000);
- employee furloughs (\$471,000);
- a decline in personnel expenses due to the transfer of five vacant positions to the Maryland Energy Administration (\$287,000); and
- a cost shift that transferred three positions previously budgeted as general funds to the Homestead Tax Credit Program (\$114,000).

### *E50C – Department of Assessments and Taxation*

Additionally, there was a general fund reversion of \$125,000. The reversion was primarily due to an accounting error as well as unrealized telecommunications expenses.

The special fund appropriation increased by \$198,000. This increase was the result of a COLA (\$58,000) and a special fund deficiency within the Supplemental Homeowners' and Homestead Tax Credit programs (\$140,000). The special fund appropriation also decreased by \$66,000 due to cost containment actions taken by BPW. Cost savings were achieved by implementing employee furloughs (\$34,000) and reducing health insurance expenditures (\$32,000). Additionally, there was a special fund cancellation in the amount of \$178,000 due to unrealized expenditures within the Charter Unit.

Lastly, the reimbursable fund appropriation increased by \$3.5 million over the fiscal 2009 legislative appropriation. This increase was due to the receipt of information technology funds from the Major Information Technology Project Development Fund for the Assessment Administration and Valuation System (AAVS). Additionally, there was a corresponding reimbursable fund cancellation of \$2.0 million due to unrealized AAVS expenditures.

### **Fiscal 2010**

The fiscal 2010 total budget for the department increased by a net \$1.2 million. This decrease is the net result of the following: (1) a \$3.0 million increase in special and reimbursable funds due to receipt of information technology funds transferred from the Major Information Technology Development Project Fund; (2) the implementation of employee furloughs (\$949,053); (3) a reduction in Urban Enterprise Zone Tax Credits (\$657,048); and (4) across-the-board reductions in communications, salaries and wages, and fixed charges (\$185,689).

## Major Information Technology Projects

### Department of Assessments and Taxation Assessment Administration and Valuation System

<b>Project Description:</b>	To consolidate two existing data systems ( <i>i.e.</i> , the Real Property Administration Data System and the Valuation System) into a single relational database management system.							
<b>Project Business Goals:</b>	The goal of this project is to create a single integrated statewide database that will be accessible by all of the 24 assessments offices. It is anticipated that consolidating the two systems will result in better functionality of the current land and valuation systems as well as system processing efficiencies.							
<b>Estimated Total Project Cost:</b>	\$8,974,599					<b>New/Ongoing Project:</b>	Ongoing	
<b>Project Start Date:</b>	December 2006			<b>Projected Completion Date:</b>	December 2011			
<b>Schedule Status:</b>	The contract for the project was approved by the Board of Public Works in December 2006. Project initiation began in February 2007 and the GAP analysis was completed in June 2007. Development and software integration testing, which is now scheduled to be completed in February 2010, was delayed due to contractor resource issues. User Acceptance Testing will begin upon completion of the development phase and system level testing.							
<b>Cost Status:</b>	Current legacy systems continue to be hosted by the Annapolis Data Center (ADC). Additional operating funds have been requested to maintain the current level of ADC support through final implementation of the new system.							
<b>Scope Status:</b>	None.							
<b>Project Management Oversight Status:</b>	The project's acting project manager left the agency in January 2010. The Department of Assessments and Taxation will rely on other in-house resources to oversee the project until a full-time replacement is identified to complete the project.							
<b>Identifiable Risks:</b>	User interface issues are present with regard to the Homeowners' Tax Credit Program in addition to two local jurisdictions. The department is currently working with all of the relevant parties to resolve these issues.							
<b>Additional Comments:</b>	None.							
<b>Fiscal Year Funding (\$ in Thousands)</b>	<b>Prior Years</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>Balance to Complete</b>	<b>Total</b>
Personnel Services	\$115.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$115.0
Professional and Outside Services	6,543.9	885.7	1,050.0	0.0	0.0	0.0	0.0	8,479.6
Other Expenditures	380.0	0.0	0.0	0.0	0.0	0.0	0.0	380.0
<b>Total Funding</b>	<b>\$7,038.9</b>	<b>\$885.7</b>	<b>\$1,050.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$8,974.6</b>

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

<u>Object/Fund</u>	<u>FY09 Actual</u>	<u>FY10 Working Appropriation</u>	<u>FY11 Allowance</u>	<u>FY10 - FY11 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	628.00	626.00	591.00	-35.00	-5.6%
02 Contractual	4.00	1.00	1.00	0	0%
<b>Total Positions</b>	<b>632.00</b>	<b>627.00</b>	<b>592.00</b>	<b>-35.00</b>	<b>-5.6%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 41,106,249	\$ 41,121,112	\$ 41,130,304	\$ 9,192	0%
02 Technical and Spec. Fees	111,866	27,512	27,233	-279	-1.0%
03 Communication	1,268,429	1,578,247	1,418,231	-160,016	-10.1%
04 Travel	305,148	399,700	297,028	-102,672	-25.7%
06 Fuel and Utilities	12,257	15,445	13,030	-2,415	-15.6%
07 Motor Vehicles	86,538	85,143	77,033	-8,110	-9.5%
08 Contractual Services	4,691,374	5,130,987	3,062,355	-2,068,632	-40.3%
09 Supplies and Materials	279,797	362,241	281,577	-80,664	-22.3%
10 Equipment – Replacement	240,372	181,850	84,000	-97,850	-53.8%
12 Grants, Subsidies, and Contributions	57,277,509	60,383,902	73,611,677	13,227,775	21.9%
13 Fixed Charges	1,749,713	1,735,087	2,032,991	297,904	17.2%
<b>Total Objects</b>	<b>\$ 107,129,252</b>	<b>\$ 111,021,226</b>	<b>\$ 122,035,459</b>	<b>\$ 11,014,233</b>	<b>9.9%</b>
<b>Funds</b>					
01 General Fund	\$ 100,438,060	\$ 102,440,527	\$ 116,594,000	\$ 14,153,473	13.8%
03 Special Fund	5,195,226	6,389,079	5,441,459	-947,620	-14.8%
09 Reimbursable Fund	1,495,966	2,191,620	0	-2,191,620	-100.0%
<b>Total Funds</b>	<b>\$ 107,129,252</b>	<b>\$ 111,021,226</b>	<b>\$ 122,035,459</b>	<b>\$ 11,014,233</b>	<b>9.9%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.

**Fiscal Summary  
Department of Assessments and Taxation**

<u>Program/Unit</u>	<u>FY09 Actual</u>	<u>FY10 Wrk Approp</u>	<u>FY11 Allowance</u>	<u>Change</u>	<u>FY10 - FY11 % Change</u>
01 Office of the Director	\$ 2,574,697	\$ 2,524,067	\$ 2,765,381	\$ 241,314	9.6%
02 Real Property Valuation	31,751,645	31,810,625	31,637,632	-172,993	-0.5%
04 Office of Information Technology	3,729,033	2,627,658	3,439,341	811,683	30.9%
05 Business Property Valuation	3,269,404	3,295,036	3,356,377	61,341	1.9%
06 Tax Credit Payments	57,277,509	60,383,902	73,611,677	13,227,775	21.9%
08 Property Tax Credit Programs	2,601,718	2,737,803	2,586,875	-150,928	-5.5%
09 Major Information Technology Development Projects	1,495,966	3,000,000	0	-3,000,000	-100.0%
10 Charter Unit	4,429,280	4,642,135	4,638,176	-3,959	-0.1%
<b>Total Expenditures</b>	<b>\$ 107,129,252</b>	<b>\$ 111,021,226</b>	<b>\$ 122,035,459</b>	<b>\$ 11,014,233</b>	<b>9.9%</b>
General Fund	\$ 100,438,060	\$ 102,440,527	\$ 116,594,000	\$ 14,153,473	13.8%
Special Fund	5,195,226	6,389,079	5,441,459	-947,620	-14.8%
<b>Total Appropriations</b>	<b>\$ 105,633,286</b>	<b>\$ 108,829,606</b>	<b>\$ 122,035,459</b>	<b>\$ 13,205,853</b>	<b>12.1%</b>
Reimbursable Fund	\$ 1,495,966	\$ 2,191,620	\$ 0	-\$ 2,191,620	-100.0%
<b>Total Funds</b>	<b>\$ 107,129,252</b>	<b>\$ 111,021,226</b>	<b>\$ 122,035,459</b>	<b>\$ 11,014,233</b>	<b>9.9%</b>

Note: The fiscal 2010 appropriation does not include deficiencies.