

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 133 (Delegate Frank) (By Request)
Ways and Means

Property Tax - Assessment Freeze for Elderly Homeowners

This bill prohibits increases in the assessed value of residential property owned and occupied by an individual who is at least 65 years old with combined income of \$50,000 or less. This restriction does not apply if during the previous calendar year (1) the property was not the owner's principal residence; (2) ownership of the property changed; (3) the property value decreased due to a change in zoning classification; (4) the property's use changed substantially; (5) extensive improvements were made to the property; or (6) the previous assessment was erroneous.

This bill applies to assessments for all taxable years beginning July 1, 1997.

Fiscal Summary

State Effect: General fund expenditures could increase \$393,500 in FY 1997 and special fund revenues could decrease by \$376,900 in FY 1998. Out-year estimates reflect continuing operating expenditures and 2% growth in property assessments.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
SF Revenues	\$0	(\$376,900)	(\$761,300)	(\$1,153,300)	(\$1,553,300)
GF Expenditures	393,500	394,400	408,100	422,400	437,100
Net Effect	(\$393,500)	(\$771,300)	(\$1,169,400)	(\$1,575,700)	(\$1,990,400)

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: Local government revenues could decline by \$5.2 million in FY 1998.

Fiscal Analysis

State Revenues: Freezing property tax assessments for elderly homeowners could result in a

\$180 million loss in taxable assessable base. This could decrease State property tax revenues by \$376,900 in fiscal 1998, which is based on a \$0.21 per \$100 of assessed value State property tax rate. Currently, this revenue is earmarked for the payment of principal and interest on State bonds. The revenue loss in future years reflects a 2% annual increase in real property values and constant property tax rates.

This estimate is based on the following assumptions:

- real property assessable base totals \$105.5 billion in fiscal 1997;
- 63% of real property base is owner-occupied residential property;
- 18% of owner-occupied residential property is owned by individuals age 65 or older;
- 75% of elderly property owners would apply and become eligible for the assessment freeze; and
- 2% increase in real property values in fiscal 1997.

State Expenditures: Approximately 167,000 property owners would be eligible for this tax credit, which is more than twice the number eligible under the Homeowners' Tax Credit (Circuit Breaker) Program, which has a staff of 37 auditors and clerks. Accordingly, additional staff would be required to handle the additional workload generated by this new initiative. General fund expenditures could increase by an estimated \$393,500 in fiscal 1997 which reflects a 90-day start-up delay. This estimate reflects the cost of hiring three Accountant Auditors, one Office Supervisor, four Office Clerks and ten Contractual Clerks to process and audit approximately 167,000 tax credit applications. It includes salaries of \$112,600, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$162,000
Contractual Employees	137,000
Postage Expenses	53,500
Other Operating Expenses	<u>41,000</u>
Total FY 1997 State Expenditures	\$393,500

Future year expenditures reflect (1) full salaries with 5% annual increases and 3% employee turnover; (2) 3% annual increases in ongoing operating expenses; and (3) elimination of six Contractual Clerk positions which performed one-time start-up functions.

Local Revenues: Local government property tax revenues could decrease by approximately \$5.2 million in fiscal 1998. This decrease is based on a statewide weighted effective tax rate of \$2.89 per \$100 of assessed value. Local revenues could decrease by \$10.5 million in fiscal 1999 to \$21.4 million in fiscal 2001. The revenue loss in future years reflects a 2% annual increase in real property values and constant local property tax rates.

The overall impact for each county will depend upon real property assessment growth, homestead property tax caps, and each county's local property tax rates. For example, Talbot County's property assessments are already frozen for existing property due to the county's 0% homestead tax cap.

Information Source(s): Department of Assessments and Taxation, Department of Fiscal Services

Fiscal Note History: First Reader - March 11, 1996

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