Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 945 (Delegates Stull, *et al.*)
Ways and Means and Environmental Matters

Property Tax Credit - Nonpoint Source Pollution Reduction

This bill requires counties to grant a real property tax credit against the county property tax imposed on real property that is used for agricultural purposes and is currently subject to a soil conservation and water quality plan approved by the county soil conservation district and a nutrient management plan. The property tax credit for each property must be equal to the lessor of: (1) the cost of implementing the soil conservation and water quality plan or nutrient management plan; or (2) 50% of the real property tax assessed on that property.

The counties shall adopt procedures to determine: (1) the conditions of eligibility; (2) the costs of implementing the soil conservation and water quality plan or nutrient management plan; and (3) the method of application for the property tax credit.

As provided in the State budget, the State shall remit to each county an amount equal to the funds that would have been collected if the property tax credit had not been granted under this bill.

Any property owner who has been granted a property tax credit under this bill and violates either management plan will be subject to a penalty equal to 200% of the property taxes that the owner would have owed if the property tax credit had not been granted.

The bill is effective July 1, 1999.

Fiscal Summary

State Effect: Assuming that the State has to pay the full amount of the property tax credits granted, expenditures could increase by an indeterminate but significant amount. Indeterminate increase in expenditures. Revenues would not be affected.

Local Effect: Potential minimal.

Small Business Effect: Potential meaningful. To the extent that farmers are eligible for the tax credit, their property tax liability could decrease by up to 50%. On the other hand, expenditures could increase to the extent that farmers who are considered small businesses are found in violation of either management plan.

Fiscal Analysis

Background:

Nutrient Management Plans

Nutrient management plans are recommendations for controlling nutrient levels in farm soils. As of July 1, 1998 these plans are mandatory and most must be implemented by July 1, 2002.

Soil Conservation and Water Quality Plans

Soil conservation and water quality voluntary plans are created by county soil conservation districts and may vary from district to district. These plans incorporate all natural resources of the farm and may deal with potential nonpoint source pollution from agricultural runoff, erosion problems, and animal waste management.

Maryland Agricultural Cost Share Program (MACS)

The Maryland Agricultural Cost Share Program is designed to give a financial incentive for farmers to adopt soil conservation and water quality plans. If a farmer adopts and implements these plans, MACS reimburses the farmers for 87.5% of the costs of implementing these plans. However, there are certain reimbursement limitations. If the farmer implements a plan to reduce soil erosion, MACS will reimburse the farmer for up to $35,000 per farm or $20,000 per project. If the farmer implements an animal waste storage and containment plan, then MACS will reimburse the farmer for up to $50,000 per farm or $65,000 per storage system.

The Maryland Department of Agriculture advises that MACS reimbursed farmers for approximately $4.1 million in fiscal 1998, $3.8 million of which were general funds and $341,000 were federal funds.

State Expenditures: The Department of Assessments and Taxation advises that there are currently 13,000 farms in Maryland with a total assessed value equal to $2.3 billion as of July 1, 1998. Using an average tax rate of $2.34 per $100 of assessed value, the total tax due on agricultural property would be $54 million. Therefore, the maximum amount of the tax credit granted by this bill (50% of the real property tax), would be equal to $27 million.

The Department of Agriculture was unable to determine how many farms are implementing either a soil conservation and water quality program or a nutrient management plan. However, it is known that there are approximately 1.1 million acres that are currently subject to 11,400 management nutrient plans in the State.

Under current law, a county may grant a farmer who implements a soil conservation and water quality plan and/or a nutrient management plan a property tax credit for up to 50% of the real property tax assessed on that property. In addition, they can be reimbursed for up to 87.5% of the cost of building a nonpoint source pollution control project under the MACS program.

The total cost of granting the property tax credit pursuant to this bill to farmers who implement soil conservation and water quality plans cannot be reliably estimated at this time. However, for illustrative purposes only, in fiscal 1998, there were 650 projects related to implementing the soil conservation and water quality plans. The MACS program reimbursed the farmers for approximately $4.0 million for the costs incurred for these projects. The farmers paid approximately $1 million for these projects themselves. Assuming the farmers would be able to claim the property tax credit on the costs they actually paid for themselves, the maximum property tax credit would be a total of $1 million.

Assuming that farmers who qualify for this property tax credit file for this credit annually, general fund administrative expenditures for the Department of Assessments and Taxation could increase by an estimated $32,050 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one administrative analyst I to process the reimbursement applications. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenditures. However, if the owners of agricultural land are not required to file for this credit on an annual basis, then the workload can be handled within existing resources.

Under current law, farmers who implement a soil conservation and water quality plan may not be granted a property tax credit until the plan is certified by the county soil conservation district. Also, the Maryland Department of Agriculture advises general fund expenditures could increase by $363,000 in fiscal 2000, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one administrative officer and one additional soil conservation planner to certify farmers for the property tax credit granted by this bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing expenditures. However, the Department of Legislative Services advises the certification requirement under this bill will not increase the department's workload beyond that which already exists under current law. Therefore, the bill's requirements can be handled with existing resources.

Local Effect: The bill requires counties to adopt their own procedures on implementing this tax credit. It is assumed that these procedures could be handed with existing resources. Revenues could also increase to the extent that farmers are found in violation of either management plan.

Information Source(s): Department of Assessments and Taxation, Prince George's County, Harford County, Queen Anne's County, Carroll County, Department of the Environment, Department of Agriculture

Fiscal Note History: First Reader - March 10, 1999
ncs/jr

Analysis by: Joanna Rooney

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510