

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
Revised

House Bill 918 (Montgomery County Delegation)

Ways and Means

Montgomery County - Property and Income Taxes - Neighborhood Stabilization Credits
MC 17-00

This bill authorizes Montgomery County to grant 1,500 ten-year property tax credits against county property tax imposed on owner-occupied residential real estate in certain specific geographic areas designated by the County Executive. It also provides for an income tax credit equal to the property tax credit, which is refundable.

The bill is effective June 1, 2000, and is applicable to all taxable years for income tax purposes beginning after December 31, 2000. Montgomery County must report by October 1, 2002, to the General Assembly on the impact on the neighborhoods that are targeted.

Fiscal Summary

State Effect: General fund revenues could decline by an estimated \$75,600 in FY 2002 and by \$151,200 annually beginning in FY 2003. No effect on expenditures.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	(\$75,600)	(\$151,200)	(\$151,200)	(\$151,200)
GF Expenditures	0	0	0	0	0
Net Effect	\$0	(\$75,600)	(\$151,200)	(\$151,200)	(\$151,200)

Note: () = decrease; GF = general funds

Local Effect: Montgomery County will lose property tax revenue estimated at \$75,600 in FY 2002. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Bill Summary: Property owners would qualify for tax credits under the bill if they purchase residential property in designated geographic areas from July 1, 2000, through June 30, 2002, as long as they did not own property in the geographic areas during the 12 months immediately prior to the purchase. The tax credit equals 40% of the county property tax due for each of the first five years after purchase, and declines by 5% annually until the tenth year. After the tenth year, the credit expires.

The designated geographic areas must contain no fewer than 50 single-family homes and are designated by the County Executive for participation in a demonstration project for neighborhood preservation and stabilization. The County Executive must hold a public hearing prior to the final designation of the geographic areas and the designation must be made by regulation adopted by the County Executive and approved by the County Council. **Current Law:** A neighborhood stabilization tax credit does not exist in Montgomery County. However, a similar program exists in Baltimore City and Baltimore County.

Background: The Neighborhood Stabilization and Preservation Act of 1996 applies to Baltimore City and Baltimore County. It provides the same tax credit for property taxes on owner-occupied residential property bought in designated neighborhoods in Baltimore City and Baltimore County between July 1, 1996, and June 30, 1999. This date was extended until June 30, 2001, by Chapter 319 of 1999. Chapter 319 also increased the number of dwellings eligible for the program in Baltimore City to 1,500 and in Baltimore County to 1,400.

The table below shows the State and local revenue loss for the program from fiscal 1997 through fiscal 2000 if all applicants claim the credit.

Neighborhood Preservation and Stabilization Act Demonstration Program		
	<u>Baltimore City</u>	<u>Baltimore County</u>
Total Number of Applicants	47	97
Average Home Assessment	\$16,460	\$28,720
Local Property Tax Rate per \$100 Assessment	\$5.82	\$2.855
Average Property Tax	\$958	\$820
Total Local Revenue Loss	\$18,010	\$31,816
Total State Revenue Loss*	\$18,010	\$31,816

**To date, not all applicants have claimed the State income tax credit.*

State Revenues: General fund revenues will decline by an estimated \$75,600 in fiscal 2002 due to the income tax credits, based on the following facts and assumptions:

- several neighborhoods are designated;

- there are 1,500 homes in the designated areas;
- 9% of the homes will be purchased each year;
- the average home sales price is \$184,900 in Montgomery County;
- the sale price in the designated neighborhood equals 76% of the average price in the county (\$140,000); and
- the property tax rate will be \$2.50.

The property tax credit granted for each house will be \$560 (40% of the property taxes, estimated at \$1,400). The property tax credits granted for the 135 properties sold in each of the two applicable years would be \$75,600. Because the property tax credit will not be granted until the year after the purchase, the first credits will not be granted until 2002. The revenue loss will increase by \$75,600 in fiscal 2003 for a revenue loss of \$151,200. No new credits will be granted after this, so the revenue loss will continue at this level through 2006, and then decline by 5% incrementally through the following six years after which the program will end.

Local Revenues: Following the above facts and assumptions, Montgomery County revenues will decline by an estimated \$75,600 in fiscal 2002. The revenue loss in fiscal 2003 will double for a loss of \$151,200 and will even out for the following three years. The local revenue loss will follow the same pattern as the State revenue loss above.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Prince George's County, Department of Legislative Services

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