

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

House Bill 310 (Delegates Gordon and Shriver)
 Ways and Means

Semiannual Property Tax Payment

This bill makes the semiannual property tax payment program that currently applies to owner-occupied residential property applicable to all real property. The first property tax payment is due by September 1 and the second installment is due by December 1 of the tax year. Property owners may elect to continue paying on an annual basis. To compensate the local governments for lost interest and administrative expenses, local governments may assess the property owner a maximum service charge of 1.65% of the second installment.

The bill is effective for taxable years beginning after June 30, 2003.

Fiscal Summary

State Effect: Annuity Bond Fund revenues could increase by a maximum of \$300,500 in FY 2004. General fund expenditures would decrease by a corresponding amount. Out-year estimates reflect growth (2%) in the assessable base.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
SF Revenue	\$0	\$300,500	\$306,500	\$312,600	\$318,900
GF Expenditure	0	(300,500)	(306,500)	(312,600)	(318,900)
Net Effect	\$0	\$601,000	\$613,000	\$625,200	\$637,800

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

Local Effect: Local government interest revenue could decrease by \$5.8 million and service fee revenue could increase by \$9.6 million in FY 2004. **This bill imposes a mandate on a local government unit.**

Small Business Effect: Potential meaningful.

Analysis

Current Law: Currently, only owner-occupied residential property is subject to semiannual property tax payment unless otherwise elected by the owner. Local governments are authorized to impose a maximum service charge of 1.65% of the second payment to cover lost interest for the three-month delay in the tax collection and associated administrative fees. The property owner can elect not to participate in the semiannual payment program by either making the full payment by September 30 or by notifying the owner's escrow agent in writing at least 60 days prior to the beginning of the tax year.

The State real property tax rate is \$.084 per \$100 of assessed value. All State property tax revenues are credited to a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Any increase in revenue for the Annuity Bond Fund results in a corresponding decrease in general fund expenditures used to pay debt service.

Background: Prior to the enactment of Chapter 306 of 1999, property tax was one of the largest items required to be paid as part of closing costs when property was purchased. Property tax was due in July at the beginning of the taxable year. If the seller had paid the tax for the year, the buyer had to reimburse the seller for the property tax that applied for the part of the taxable year remaining after the purchase. In addition, lenders usually require property taxes to be paid into an escrow account for each month of the taxable year, plus an additional month or two for security.

In order to reduce the impact at closing of requiring prepayment of a full year of property taxes, numerous proposals over the years have attempted to provide for payment of property taxes on a semiannual basis to reduce the amount that had to be reimbursed to the seller or otherwise paid at closing. Chapter 408 of 1993 *authorized*, but did not require, counties and municipal corporations to allow the semiannual payment of property taxes.

Chapter 123 of 1995 *required* counties and municipal corporations to provide an optional semiannual payment schedule that allowed owners of owner-occupied residential property to elect to pay property tax on a semiannual basis. The taxing authority was authorized to impose a service charge with the second payment for lost interest and administrative expenses resulting from the semiannual payment election.

In spite of this statewide semiannual payment program, only 3% of State residents had taken advantage of the option. The Federal Housing Administration rated Maryland as having the second highest closing costs in the United States. Property taxes represented about 20% of closing costs in most jurisdictions in the State and up to 40% in Baltimore City. Thus, in another attempt to lower closing costs in the State, Chapter 306 of 1999 made the semiannual payment program for owner-occupied residential property mandatory.

State Fiscal Effect: In fiscal 2002, there are 636,634 taxable properties with an assessable base of \$110,087,502,600 that are not subject to semiannual property tax payment. These include vacant lots, industrial property, commercial property, apartments, and rental properties. **Exhibit 1** shows the property taxes paid in that year for these properties.

Exhibit 1
Property Taxes to State and Local Jurisdictions
Fiscal 2002

State Property Taxes	\$92,473,500
County Property Taxes	1,110,782,900
Municipal Property Taxes	<u>56,640,000</u>
Total Property Taxes	\$1,259,896,400

The bill would not directly affect the total property taxes collected but the timing of the collections. The Department of Assessments and Taxation would not be affected because billing and collection of property taxes is mainly a local function.

However, one-half of the State property taxes that are collected by the local governments and remitted to the State would be collected three months later than under current law. Using an annual interest rate of 4%, which the State Treasurer's Office anticipates could be earned in fiscal 2004, and assuming that no property owners elected to pay the property taxes annually, the State could lose approximately \$462,400 in interest earnings. The actual interest lost would depend on the number of property owners that elect the annual payment schedule.

Under the bill, a service charge may be imposed that is reasonably equivalent to the anticipated lost interest income associated with the three-month delay, not to exceed 1.5%. Local governments may also charge a maximum of 10% of the lost interest percentage as an administrative fee. Therefore, the service charge cannot exceed 1.65%. **Exhibit 3** provides the fiscal 2002 schedule of local service charges. The service charge is calculated by multiplying the amount of the second installment by the applicable

service charge. If the owner elects to pay the taxes on an annual basis they will not be subjected to the service charge.

Exhibit 2 shows the service charge the property owners would pay if all choose to pay on the semiannual basis assuming that all local governments charge the maximum allowed of 1.65% of the second half of the property tax payment.

Exhibit 2
Service Charges to Property Owners under Semiannual Payment Schedule

State	\$762,900
County	9,164,000
Municipal	<u>467,300</u>
Total	\$10,394,200

Combining the loss in interest income and the gain in revenues due to the service charge, State Annuity Bond Fund revenues could increase by \$300,500. Out-year revenue reflects 2% assessable base growth.

Local Fiscal Effect: As stated above, local governments are able to charge homeowners a service charge for an amount that is reasonably equivalent to the anticipated lost interest income and administrative expenses associated with the semiannual payments. As a result, counties and municipalities could recoup approximately \$9,631,239. At the same interest rate used for State deposits, local governments could lose interest related to the three-month delay in collection of the second half of the property taxes of approximately \$5,837,100. Additionally, whether the administrative charge portion of the service charge covers the local governments actual expenses related to the semiannual payment schedule cannot be reliably estimated at this time. However, based on the fact that the administrative systems are currently in place for owner-occupied residential property, it is anticipated that any additional administrative expenses would be minimal.

Small Business Effect: The closing cost of real property for small business ventures could be reduced with the semiannual property tax payments. However, expenses of small business mortgage lenders servicing loans could increase as a result of paying two property tax installments from escrow accounts.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Assessments and Taxation, Howard County, Maryland Municipal League, Anne Arundel County, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 5, 2002
ncs/jr

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Exhibit 3
Semiannual Payment Service Fee
Fiscal 2002

<u>Counties</u>	<u>Rate</u>	<u>Municipality</u>	<u>Rate</u>	<u>Municipality</u>	<u>Rate</u>
Allegany	0.00	Aberdeen	1.65	Mardella Springs	0.00
Anne Arundel	1.56	Accident	1.65	Oakland	1.65
Baltimore City	1.65	Barton	1.65	Ocean City	1.50
Baltimore	0.00	Bel Air	1.57	Pittsville	0.00
Calvert	1.38	Berlin	1.65	Pocomoke City	1.65
Caroline	1.65	Cambridge	1.65	Port Tobacco	0.00
Carroll	1.65	Crisfield	0.00	Princess Anne	1.55
Cecil	1.65	Cumberland	0.00	Rising Sun	1.65
Charles	1.59	Deer Park	1.65	Sharptown	0.00
Dorchester	1.65	Delmar	1.65	Trappe	1.65
Frederick *	0.00	Easton	1.65	Vienna	0.00
Garrett	1.65	Eldorado	0.00	Willards	0.00
Harford	1.65	Friendsville	1.65		
Howard	0.00	Frostburg	0.00		
Kent	1.65	Fruitland	1.49		
Montgomery	0.00	Grantsville	1.65		
Prince George's	0.00	Havre de Grace	1.65		
Queen Anne's	0.00	Hebron	0.00		
St. Mary's	1.37	Henderson	0.00		
Somerset	1.65	Hurlock	0.71		
Talbot	1.65	Kitzmilller	0.00		
Washington	1.65	Leonardtown	1.38		
		Loch Lynn			
Wicomico	1.57	Heights	1.65		
Worcester	1.50	Luke	0.00		

*Frederick County does not assess a service charge but under a different State law they charge a 1% per month interest fee for any payment or partial payment received after September 30.

Municipalities that do not appear on the list are generally county billings in which case the county service charge is applicable.

Source: Department of Assessments and Taxation