

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

House Bill 1132  
Ways and Means

(Delegate Proctor)

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Property Tax - Constant Yield Tax Rate

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This bill requires the Department of Assessments and Taxation to adjust the constant yield rate to account for the cost-of-living with calendar 2002 as the base year. The bill requires the Comptroller to determine the cost-of-living adjustment.

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Fiscal Summary

**State Effect:** The bill's requirements could be handled with existing budgeted resources.

**Local Effect:** To the extent that receiving a constant yield rate certification that is adjusted for cost-of-living would influence a local government's decision to change its tax rates, this bill could increase local government property tax revenues.

**Small Business Effect:** None.

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Analysis

**Current Law/Background:** Maryland's constant yield tax rate provision requires each taxing jurisdiction to give advance notice and hold public meetings prior to setting rates if the jurisdiction is considering a tax rate higher than the constant yield tax rate. Most meetings are held during April, May, and early June. Tax rates must be set by July 1, which is the beginning of the tax year.

The constant yield concept is that, as assessments rise, the tax rate should drop to the point that the revenue derived from the property tax stays at a constant level from one year to the next, thus assuring a constant yield from this tax source. The constant yield

tax rate is simply a property tax rate that, when applied to new assessments, will result in the taxing authority receiving the same revenue in the coming taxable year that was produced in the prior taxable year. The constant yield rate is typically lower than the current tax rate.

Prior to February 15 each year, the Department of Assessments and Taxation notifies the counties, Baltimore City, and municipal taxing authorities of the tax rate that would produce the same revenue from the property tax as was produced the year before. The rates certified to the local governments are known as the constant yield tax rates and are based on the new, net assessable base for that jurisdiction. New property or construction added to the rolls for the first time is subtracted from the calculation and allowances for abatements and other deletions are deducted in arriving at the net assessable base for this purpose.

The local taxing authority cannot set a tax rate that exceeds that constant yield tax rate until first advertising its intent to do so. The notice must meet certain specifications. The taxing authority may, at its option, mail a copy of the notice to each taxpayer instead of publishing an advertisement.

The taxing authority must meet on the day and time shown in the notice. This meeting must be held between 7 and 21 days after the advertisement is published. The hearing must be held on or before June 17. Afterward, the taxing authority may adopt a resolution or ordinance adopting a property tax rate in excess of the constant yield tax rate, but if the ordinance or resolution is not approved on the day of the public hearing, the day, time, and place where the resolution or ordinance will be scheduled for consideration and approval must be announced at the public hearing.

The Department of Assessments and Taxation is charged with the responsibility of administering the constant yield tax rate provisions. In addition to calculating the rate, the department also oversees and monitors the advertising requirements. If violations are detected, the department must report them to the Attorney General who must investigate and take appropriate legal action to effect compliance.

**Local Fiscal Effect:** To the extent that a potentially higher constant yield rate would influence a local government to change its property tax rate, this bill could increase property tax revenues. Legislative Services is unable to determine the likelihood of this situation occurring and any resulting increase in revenue.

If the constant yield rate for fiscal 2004 had been adjusted with calendar 2001 as the base year, the constant yield would have been inflated to yield an additional \$63,070,740 in local property tax revenues.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 17, 2003  
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