

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 472

(Allegany County Delegation)

Ways and Means

Budget and Taxation

**Property Tax Exemption - Exception for Property Owned by Canal Place
 Preservation and Development Authority - Concession**

This bill provides that property owned by the Canal Place Preservation and Development Authority in Allegany County is not entitled to a State and local property tax exemption if the property is leased for a concession for a term of 10 years or more; or the lessee has made a capital investment in the property or improvements on the property in excess of \$500,000.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: State special fund revenues could increase by \$6,600 in FY 2008 and by \$7,300 in FY 2010. Expenditures would not be affected.

| (in dollars) | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 |
|--------------|---------|---------|---------|---------|---------|
| SF Revenue | \$0 | \$0 | \$6,600 | \$6,900 | \$7,300 |
| Expenditure | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Effect | \$0 | \$0 | \$6,600 | \$6,900 | \$7,300 |

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

Local Effect: Allegany County and Cumberland City revenues could increase by \$93,600 in FY 2008 and by \$103,200 in FY 2010. Local expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: The types of property exempt from local taxation are enumerated in statute. Exemptions apply to State property taxation as well. While local governments have limited ability to alter real property exemptions, they have been granted broad authority to exempt certain types of personal property from the property tax. The State has not imposed personal property taxes since fiscal 1984.

The major exemptions from the local property tax on real property include:

- local, State, and federal government property;
- property of religious organizations;
- cemeteries and mausoleums;
- nonprofit hospitals; portions of continuing care facilities for the elderly;
- property of charitable, fraternal, and educational institutions;
- property of national veterans' organizations;
- homes of disabled veterans' and blind individuals (partial exemption) and their surviving spouses;
- property of historical societies and museums;
- property owned by certain taxpayers engaged in building, operating, and managing nonprofit multifamily units, subject to local government approval; and
- property owned by fire companies, rescue squads, community water corporations, and housing authorities.

Background: The State real property tax rate is \$0.132 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.

The Allegany County real property tax rate is \$1.0007 per \$100 of assessed value, in unincorporated areas in the county. Due to municipal property tax differentials, the county property tax rate within Cumberland is \$0.9248. The municipal property tax rate in Cumberland is \$0.9479 per \$100 of assessed value.

State and Local Fiscal Effect: This bill repeals the property tax exemption on property owned by the Canal Place Preservation and Development Authority that is used for a concession. Currently, property which is owned by an exempt entity but used by a for-profit entity is taxable, unless it is located in a park. Canal Place is considered a park.

Canal Place Preservation and Development Authority is a joint State/federal venture to revitalize downtown Cumberland. The State Department of Assessments and Taxation (SDAT) indicates that the authority owns 12 parcels of real estate. Eight of the parcels are currently unimproved, but one is a planned site for a hotel. There are four parcels that have buildings on them. One of these buildings is used as a museum and would continue to receive an exemption. Another building is a vacant warehouse.

Two parcels currently have a potentially taxable use: a train station and a newly constructed retail area. The train station includes a deli and a gift shop. The gift shop is run by the Western Maryland Scenic Railroad. Other tenants of the train station include a real estate office and some federal government offices. The newly constructed retail area includes shops and restaurants. The train station is currently listed on the tax rolls and has an assessed value of \$803,400. The newly constructed retail area is listed on the tax rolls and has an assessed value of \$3,838,900. It is estimated that the hotel will be completed in the summer of 2007 (fiscal 2008) and will have an assessed value of approximately \$5 million. All of these properties are currently exempt from property taxation. However, it is estimated that only the hotel would be subject to the requirements of the bill and thus would not receive a property tax exemption.

Exhibit 1 shows the estimated assessable base for the property that could become taxable under the requirements of the bill and the impact on State and local revenues.

Exhibit 1
State, County, and Municipal Revenue Increase

| | <u>FY 2006</u> | <u>FY 2007</u> | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> |
|-----------------------------|----------------|----------------|-----------------|-----------------|------------------|
| Hotel – Property Assessment | | | \$5,000,000 | \$5,250,000 | \$5,512,500 |
| State Tax Rate | \$0.1320 | - | 6,600 | 6,930 | 7,277 |
| Allegany Tax Rate | \$0.9248 | - | 46,240 | 48,552 | 50,980 |
| Cumberland Tax Rate | \$0.9479 | - | 47,395 | 49,765 | 52,253 |
| Total Local Revenue | | - | \$93,635 | \$98,317 | \$103,233 |

State property tax revenues are estimated to increase by \$6,600 in fiscal 2008. Total local property tax revenues are estimated to increase by \$93,635 in fiscal 2008. Allegany County would receive \$46,240 in fiscal 2008 and the City of Cumberland would receive \$47,395. Future year revenues reflect annual assessment growth.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Allegany County, Department of Legislative Services

Fiscal Note History: First Reader - March 10, 2005
mam/hlb Revised - House Third Reader - April 6, 2005

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510