

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 1293 (Delegates Trueschler and Heller)
 Ways and Means

Property Tax - Reassessment of New Construction and Transferred Property

This bill requires the State Department of Assessments and Taxation (SDAT) to reassess property at its full market value when the property sells to a new owner or if the property has more than \$300,000 in new construction added during the previous year. SDAT is prohibited from authorizing a State, county, or municipal corporation to grant a homestead tax credit for property whose value has increased by at least \$300,000 due to substantially completed improvements to the dwelling.

The bill takes effect June 1, 2005 and applies to all taxable years beginning after June 30, 2005.

Fiscal Summary

State Effect: State special fund revenues could increase by approximately \$64.6 million in FY 2007. Future year revenues reflect increases in the assessable base due to reassessments. General fund expenditures could increase by \$1.0 million in FY 2006. Future year expenditures reflect annualization and inflation.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	\$0	\$64.6	\$70.1	\$73.4	\$75.5
GF Expenditure	1.0	1.2	1.3	1.4	1.5
Net Effect	(\$1.0)	\$63.3	\$68.8	\$72.0	\$74.0

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

Local Effect: Local government revenues could increase by approximately \$565.9 million in FY 2007. Future year revenues reflect increases in the assessable base due to reassessments. Local government expenditures would not be affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Real property is valued and assessed once every three years. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; or (4) a prior erroneous assessment. The assessor determines the current full market value of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

The Homestead Property Tax Credit Program provides tax credits against State, county, and municipal corporation real property taxes for owner-occupied residential properties for the amount of real property taxes attributable to annual assessment increases that exceed a specified percentage in any given year. In other words, any increase in taxable assessments each year is limited to a fixed percentage.

Background:

Triennial Assessment Process

Because only one-third of the properties in each county are reassessed in a given year, local governments can rely on prior years' growth in the other two-thirds of the base to reduce the full impact of any one-year decline in assessable base. Conversely, when market values are rising, assessed values lag behind the current market, resulting in a slower annual growth in the assessable base than the market may indicate. For example, consider a home that had been assessed for \$100,000 and is increasing in value at \$5,000 per year. The new assessment was \$115,000. Under the triennial assessment process, the home's assessed value would phase in through three equal increments (year one \$105,000; year two \$110,000; year three \$115,000). If the market value of the property continues to increase by \$5,000 per year, the difference between the market value and the assessed value for each year increases. For year one, the property owner will pay taxes on a \$105,000 assessment although the home is now worth \$120,000. For year two, the property tax bill will be based on a \$110,000 assessment and the market value of the home is \$125,000. Finally in year three, the assessment reaches the market value at the time of the last reassessment or \$115,000 while the property's actual value is now \$130,000. For each year, the property's assessment is below the current market value. In summary, the triennial process and its three-year phase-in schedule provide some cushion for taxpayers during periods of dramatically increasing property values and for local governments during a downturn in the housing market.

Since July 1991, the State has required the limit on assessment increases to be set at 10% for State property tax purposes. Local governments have the authority to lower the rate for local property tax purposes. The credit is applied against the tax due on the portion of the reassessment, if any, exceeding 10% (or the lower local limit) from one year to the next. In fiscal 2004, 10 of the 24 jurisdictions in Maryland have assessment limits below 10%: Garrett, Howard, Kent, St. Mary's, and Worcester counties – 5%; Baltimore City and Baltimore County – 4%; Anne Arundel and Prince George's counties – 2%; and Talbot County – 0%.

State and Local Property Tax Rates

The State property tax rate is established annually by the Board of Public Works, which is required by law to set a rate necessary to pay debt service on State general obligation bonds, except to the extent that funds are provided from other sources. State property tax revenues are credited to the Annuity Bond Fund. Local property tax rates are set annually by local governments and are applied to the county and municipal assessable bases.

State Revenues: Annuity Bond Fund revenues could increase by approximately \$64.6 million in fiscal 2007 as a result of the changes to the assessment process imposed by the bill. Revenues would increase due to increases in the assessable base as well as the suspension of the homestead credit for certain properties.

Exhibit 1 shows the change in the homestead tax credit resulting from the bill. **Exhibit 2** shows the change in the assessable base due to property revaluations pursuant to the bill, the resulting special fund revenue increase, and the increase due to the change in the homestead tax credit.

Exhibit 1
Special Fund Revenue Increase Resulting from Change in Homestead Tax Credit

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Base – 3-year Cycle	\$27,413,777,376	\$38,000,000,000	\$40,000,000,000	\$38,000,000,000
Base – HB 1293	24,672,399,638	34,200,000,000	36,000,000,000	34,200,000,000
Increased Base	2,741,377,738	3,800,000,000	4,000,000,000	3,800,000,000
Increased SF Revenue	3,618,619	5,016,000	5,280,000	5,016,000

Exhibit 2
Total Special Fund Revenue Increase Resulting from HB 1293

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Base – 3-year Cycle	\$461,634,618,488	\$493,343,766,182	\$516,282,703,788	\$533,770,424,214
Base – HB 1293	507,798,080,337	542,678,142,801	567,910,974,167	587,147,466,636
Increased Base	46,163,461,849	49,334,376,618	51,628,270,379	53,377,042,421
Increased SF Revenue	60,935,770	65,121,377	68,149,317	70,457,696
Total SF Increase	\$64,554,388	\$70,137,377	\$73,429,317	\$75,473,696

The above estimate assumes no change in the State property tax rate.

State Expenditures: SDAT advises that there are approximately 20,000 new improvements constructed annually and approximately 220,000 properties transfer ownership each year. These properties would all require a new assessment pursuant to the bill. This could impose a significant increase in workload for SDAT.

As a result of the increased workload associated with the bill, SDAT’s general fund expenditures could increase by an estimated \$1.02 million in fiscal 2006, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring 25 assessors to conduct assessments pursuant to the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses

Salaries and Fringe Benefits	\$855,537
Additional Equipment	120,250
Operating Expenses	<u>40,969</u>
Total FY 2006 State Expenditures	\$1,016,756

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Local Fiscal Effect: Local government revenues could increase by approximately \$565.9 million in fiscal 2007 as a result of the changes to the assessment process imposed by the bill. Revenues would increase due to increases in the assessable base as well as the suspension of the homestead credit for certain properties.

Exhibit 3 shows the change in the assessable base due to property revaluations pursuant to the bill and the resulting local revenue increase incorporating the homestead tax credit change.

Exhibit 3
Total Local Revenue Increase Resulting from HB 1293
(\$ in Thousands)

	FY 2007		FY 2008		FY 2009		FY 2010	
	<u>Base</u>	<u>Revenue</u>	<u>Base</u>	<u>Revenue</u>	<u>Base</u>	<u>Revenue</u>	<u>Base</u>	<u>Revenue</u>
Allegany	\$260,124	\$2,603	\$278,218	\$2,784	\$290,985	\$2,912	\$300,895	\$3,011
Anne Arundel	6,323,184	59,501	7,198,086	67,734	8,218,959	77,340	9,525,760	89,637
Baltimore City	2,518,556	58,632	2,729,995	63,554	2,924,981	68,094	3,122,991	72,703
Baltimore	6,002,675	66,930	6,704,989	74,761	7,468,768	83,277	8,512,932	94,919
Calvert	749,302	6,684	818,143	7,298	887,286	7,915	969,845	8,651
Caroline	171,310	1,631	185,359	1,765	197,080	1,876	209,194	1,992
Carroll	1,392,149	14,590	1,540,648	16,146	1,713,065	17,953	1,949,281	20,428
Cecil	645,883	6,330	693,176	6,793	730,485	7,159	763,042	7,478
Charles	1,038,040	10,650	1,115,989	11,450	1,186,887	12,177	1,254,182	12,868
Dorchester	199,334	1,854	215,531	2,004	229,414	2,134	243,723	2,267
Frederick	1,964,648	19,646	2,160,692	21,607	2,372,071	23,721	2,646,870	26,469
Garrett	262,834	2,723	285,109	2,954	300,520	3,113	314,980	3,263
Harford	1,658,322	18,109	1,794,547	19,596	1,908,753	20,844	2,023,746	22,099
Howard	3,421,654	40,016	3,868,008	45,236	4,391,721	51,361	5,088,256	59,507
Kent	206,007	2,085	227,236	2,300	248,351	2,513	273,029	2,763
Montgomery	13,637,754	137,605	15,187,303	153,240	16,887,893	170,399	18,995,000	191,660
Prince George's	5,964,697	78,674	6,709,904	88,504	7,530,308	99,325	8,590,059	113,303
Queen Anne's	554,476	5,134	598,042	5,538	640,827	5,934	680,222	6,299
St. Mary's	678,498	5,957	749,219	6,578	823,955	7,234	920,592	8,083
Somerset	87,945	888	95,049	960	101,443	1,025	107,467	1,085
Talbot	724,604	3,913	805,303	4,349	888,142	4,796	981,428	5,300
Washington	829,671	7,865	887,752	8,416	933,564	8,850	973,016	9,224
Wicomico	460,381	4,719	494,659	5,070	519,745	5,327	540,723	5,542
Worcester	1,262,224	9,214	1,367,144	9,980	1,481,000	10,811	1,593,061	11,629
Total	\$51,014,270	\$565,954	\$56,710,100	\$628,617	\$62,876,202	\$696,090	\$70,580,297	\$780,181

The above estimate assumes no changes in local property tax rates.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mp/hlb

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