

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 295
 Budget and Taxation

(Senator Dyson)

Ways and Means

Property Tax - Assessment of Conservation Property

This bill establishes conservation property as a separate sub-class of real property and provides that it be valued at a rate equivalent to the highest rate used for agricultural use land. Conservation property includes land that is subject to a perpetual conservation easement approved by the Board of Public Works before June 30, 1986 and land that currently receives a property tax credit for conservation land.

The bill is effective June 1, 2005 and applies to tax years after June 30, 2005.

Fiscal Summary

State Effect: Special fund revenues could decrease by \$27,800 in FY 2006 and by \$34,400 in FY 2010 due to frozen assessments at \$500/acre. The decrease in State special fund revenue could require either (1) an increase in the State property tax rate; or (2) a general fund appropriation, in order to cover debt service on the State's general obligation bonds.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	(\$27,800)	(\$28,500)	(\$30,700)	(\$32,600)	(\$34,400)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$27,800)	(\$28,500)	(\$30,700)	(\$32,600)	(\$34,400)

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

Local Effect: County property tax revenues could decrease by \$200,300 beginning in FY 2006 and increasing to \$248,200 in FY 2010. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Current Law: Property that is subject to a perpetual conservation easement receives a 100% State and local property tax credit on the donated land for 15 years. As the credit expires, property taxes must be paid based on assessed value.

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. Local governments generally have the authority to set their own property tax rates.

Background: The current land assessment is \$1,000 per acre. If land is assessed with an agricultural use assessment, the value is \$125 to \$500 per acre. The highest agricultural use assessment is \$500 per acre.

The bill applies to how easement properties are assessed by expanding which properties will be able to receive an agricultural assessment, even though they may not be in active agricultural use. The bill is intended to apply to pre-1987 Maryland Environmental Trust (MET) properties that were excluded from this benefit in the original legislation. Typically, a property can only qualify to be in Maryland Agricultural Land Preservation Foundation (MALPF) agricultural district if it is actively farmed. Once a district property has sold its easement, such properties are no longer required to remain in active agricultural use, though it would be highly unusual that farming properties would not continue in active agricultural use because of the financial impact of the differential assessment system.

State Fiscal Effect: The bill provides a new assessment for conservation acres donated to MET. As a result, State special fund revenues could decrease by approximately \$27,800 in fiscal 2006 based on the number of acres that are estimated to be eligible for the new assessment. **Exhibit 1** shows the total number of conservation acres in the State and the number that would be eligible for the new assessment. **Exhibit 2** shows the estimated State and local revenue decrease based on the number of acres becoming eligible for the new assessment each year as well as the effect of the new assessment on acreage that was donated to MET prior to the creation of the current 15-year tax credit.

Local Revenues: Local government property tax revenues could decrease by approximately \$200,324 in fiscal 2006 as shown in Exhibit 2.

Additional Comments: According to information provided by MALPF, the bill could apply to 316 of the approximately 1,600 MALPF easements that were acquired or in contract status as of June 30, 1986. These 316 easement properties total approximately 48,700 acres located in all but five of Maryland's counties. While it is unlikely that any of these properties will lose their agricultural assessments, should something happen to a property' owner (prolonged illness, death with the property entering into an estate, etc.) where the farm is not actively farmed for some period of time, or if a landowner simply chooses not to farm, the property risks losing its agricultural assessment. This is likely to involve only a small handful of farms, if any, and only for a short period of time. MALPF properties approved by the Board of Public Works after June 30, 1986, do not qualify for protection of their agricultural assessment under bill as drafted.

Additional Information

Prior Introductions: This bill was introduced as SB 480/HB 1106 in the 2004 session. SB 480 received a favorable report from the Senate Budget and Taxation Committee and was approved by the full Senate. The House Ways and Means Committee took no action on the bill. HB 1106 received an unfavorable report from the House Ways and Means Committee. This bill was introduced as SB 750 in the 2002 session. It passed the Senate and the House after being amended by the Senate Budget and Taxation Committee. It was vetoed by the Governor for policy reasons.

Cross File: HB 518 (Delegate James) – Ways and Means.

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

Fiscal Note History: First Reader - February 17, 2005
ncs/hlb Revised - Senate Third Reader - April 5, 2005

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Exhibit 1
Total and Estimated Eligible Conservation Acres by County
FY 2006 – 2010

<u>County</u>	<u>Total Acres</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Allegany	1,039	0	0	189	0	0
Anne Arundel	1,158	13	8	17	0	0
Baltimore City	31	0	0	0	23	0
Baltimore	15,088	459	130	585	808	551
Calvert	2,101	14	0	0	634	135
Caroline	3,496	0	0	607	379	0
Carroll	822	112	0	0	0	58
Cecil	5,135	450	0	125	103	55
Charles	5,771	0	0	0	0	30
Dorchester	9,122	2,644	91	91	38	865
Frederick	6,935	170	46	0	0	0
Garrett	1,291	0	0	16	79	0
Harford	2,904	174	40	13	0	103
Howard	1,234	13	20	232	243	0
Kent	8,204	155	230	285	79	370
Montgomery	2,115	0	0	0	71	16
Prince George's	452	0	75	75	0	0
Queen Anne's	7,088	0	47	47	25	0
St. Mary's	3,585	0	0	0	0	0
Somerset	3,566	0	148	148	364	148
Talbot	10,400	0	305	837	0	441
Washington	3,927	154	0	0	0	0
Wicomico	1,536	0	0	0	24	0
Worcester	5,279	0	0	59	0	0
Total	102,279	4,358	1,141	3,325	2,869	2,773

Exhibit 2
Estimated State and Local Revenue Decreases Resulting From SB 295

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
<i>State</i>					
Subject to Credit	(2,876)	(3,629)	(5,824)	(7,717)	(9,547)
Pre-15 Year Credit	(24,875)	(24,875)	(24,875)	(24,875)	(24,875)
Revenue Decrease	(\$27,751)	(\$28,504)	(\$30,699)	(\$32,592)	(\$34,422)
<i>Local Governments</i>					
Subject to Credit	(21,159)	(26,361)	(41,456)	(56,200)	(69,080)
Pre-15 Year Credit	(179,165)	(179,165)	(179,165)	(179,165)	(179,165)
Revenue Decrease	(\$200,324)	(\$205,526)	(\$220,621)	(\$235,365)	(\$248,245)
