

**Department of Legislative Services
Maryland General Assembly
2005 Session**

FISCAL AND POLICY NOTE

House Bill 518
Ways and Means

(Delegate James)

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 lowest 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 \$118,100 annually beginning in FY 2006 due to frozen assessments at \$125/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	(\$118,100)	(\$118,100)	(\$118,100)	(\$118,100)	(\$118,100)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$118,100)	(\$118,100)	(\$118,100)	(\$118,100)	(\$118,100)

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

Local Effect: County property tax revenues could decrease by \$844,600 beginning in FY 2006. 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 lowest agricultural use assessment is \$125 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 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: State special fund revenues could decrease by \$118,100 annually beginning in fiscal 2006, as shown in **Exhibit 1**.

The estimated current assessment of land qualified under the bill totals \$102.3 million. The estimated assessment if the land were assessed using the lowest agricultural use assessment of \$125 per acre would total \$12.8 million. The \$89.5 million decrease in assessed value would result in the loss of approximately \$118,600 in State property tax revenues. The actual revenue loss could be somewhat less than estimated to the extent that some of acreage shown in Exhibit 1 is still receiving the 100% property tax credit allowed under the law.

Local Revenues: Local government property tax revenues could decrease by approximately \$844,600 in fiscal 2006 as shown in Exhibit 1.

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: SB 295 (Senator Dyson) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 16, 2005
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Exhibit 1

<u>County</u>	<u>Conservation Acres</u>	<u>Assessment at \$1,000</u>	<u>Assessment at \$125</u>	<u>Local Tax Rate</u>	<u>Local Revenue Decrease</u>	<u>State Revenue Decrease</u>
Allegany	1,039	\$1,039,000	\$129,875	1.0007	\$9,098	\$1,200
Anne Arundel	1,158	1,158,000	144,750	0.9410	9,535	1,337
Baltimore City	31	31,000	3,875	2.3280	631	36
Baltimore	15,088	15,088,000	1,886,000	1.1150	147,202	17,427
Calvert	2,101	2,101,000	262,625	0.8920	16,398	2,427
Caroline	3,496	3,496,000	437,000	0.9520	29,122	4,038
Carroll	822	822,000	102,750	1.0480	7,538	949
Cecil	5,135	5,135,000	641,875	0.9800	44,033	5,931
Charles	5,771	5,771,000	721,375	1.0260	51,809	6,666
Dorchester	9,122	9,122,000	1,140,250	0.9300	74,230	10,536
Frederick	6,935	6,935,000	866,875	1.0000	60,681	8,010
Garrett	1,291	1,291,000	161,375	1.0360	11,703	1,491
Harford	2,904	2,904,000	363,000	1.0920	27,748	3,354
Howard	1,234	1,234,000	154,250	1.1695	12,628	1,425
Kent	8,204	8,204,000	1,025,500	1.0120	72,646	9,476
Montgomery	2,115	2,115,000	264,375	1.0090	18,673	2,443
Prince George's	452	452,000	56,500	1.3190	5,217	522
Queen Anne's	7,088	7,088,000	886,000	0.9260	57,431	8,187
St. Mary's	3,585	3,585,000	448,125	0.8780	27,542	4,141
Somerset	3,566	3,566,000	445,750	1.0100	31,515	4,119
Talbot	10,400	10,400,000	1,300,000	0.5400	49,140	12,012
Washington	3,927	3,927,000	490,875	0.9480	32,574	4,536
Wicomico	1,536	1,536,000	192,000	1.0250	13,776	1,774
Worcester	5,279	5,279,000	659,875	0.7300	33,720	6,097
Total	102,279	\$102,279,000	\$12,784,875		\$844,588	\$118,132