Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 199 (Senator Stone, *et al.*)
Budget and Taxation Ways and Means

Property Tax - Credit for Repaired or Reconstructed Dwelling

This bill requires local governments to provide property tax relief, in the form of two local tax credits, to homeowners whose homes were damaged or destroyed by a natural disaster and then subsequently repaired or reconstructed which resulted in an increased assessment over the assessment prior to the natural disaster. The bill also provides that a homeowner eligible for a local property tax credit under the bill is exempt from State property taxation to the same extent as the local credit. The credit may not be claimed for a dwelling for which repair or reconstruction is completed before September 18, 2003 or after December 31, 2006.

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

Fiscal Summary

State Effect: State special fund revenues could decrease by approximately $64,350 beginning in FY 2006. The decrease in State special fund revenues 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. Future year revenues and expenditures reflect assessable base growth and more eligible properties.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revenue	($64,400)	($128,700)	($193,100)	($193,100)	($193,100)
Expenditure	$0	$0	$0	$0	$0
Net Effect	($64,400)	($128,700)	($193,100)	($193,100)	($193,100)

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

Local Effect: Local government revenues could decrease by approximately $487,500 in FY 2006. Future year revenue decreases reflect assessable base growth and the credit percentage allowed by the bill. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The amount of the credits allowed under the bill are equal to the following percentage of the property tax attributable to an increase in the assessment of the dwelling upon revaluation, including improvements, over the last assessment of the dwelling before repair of reconstruction:

Year Claiming Credit	Amount of Credit on Increased Assessment
First Credit	
First taxable year	100%
Second taxable year	100%
Third taxable year	100%
Fourth taxable year	100%
Fifth taxable year	100%
Second Credit	
Sixth taxable year	50%
Seventh taxable year	50%
Eighth taxable year	50%

Current Law: Property owners do not have assessment increases that are attributable to new construction capped by the homestead tax credit. Rather, the property owner continues to receive the credit to the extent it was received prior to any new construction.

Chapter 43 of 2004 provided for the continuation of Homestead Property Tax Credits for the current taxable year and two succeeding taxable years even if the property has been removed from the assessment roll because of property damage due to an accident or natural disaster.

Background: **Exhibit 1** shows the number of properties, by county that were damaged by Hurricane Isabel in September 2003. Exhibit 1 also shows the number of properties that have been placed back on the tax rolls and the current number of properties that are significantly improved from the last assessment, and therefore eligible for the credit proposed by the bill.

Exhibit 1
Number of Properties Damaged by Hurricane Isabel

County	Damaged Properties	Back on Tax Rolls	Significantly Improved
Anne Arundel	127	30	15
Baltimore County	2,800	450	150
Calvert	137	18	3
Cecil	77	52	25
Dorchester	72	12	6
Kent	59	30	9
Queen Anne's	101	29	1
St. Mary's	112	49	41
Total	**3,485**	**670**	**250**

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.

State Fiscal Effect: Primarily, this bill would assist homeowners' whose properties were damaged during Hurricane Isabel and who had no choice but to build a better home. In order to meet insurance or building code requirements, many homeowners had to raise their homes at least eight feet above the ground.

If the property owner simply replaces the damaged structure with a similar one, SDAT will not change the assessment that the property was receiving prior to the storm. In instances where property owners made significant improvements, the property owners would still receive the homestead tax credit to the extent which they were previously eligible; however, their taxes would increase significantly because the new dwelling would have an increased assessment. However, pursuant to this legislation, the property owners would receive a 100% credit for five years and a 50% credit for three years on the increased value due to the new construction. The credit is based on the difference between the previous assessment and the reassessment done for the new construction. The first five years, the tax credit equals 100% of the increased value. After the fifth year, the second credit equals 50% of the increased value. A homeowner may only receive this credit if the homeowner already received the five-year credit and this credit is limited to three years. This credit has the same requirements and restrictions as the five-year credit.

For the majority of properties which were damaged during Hurricane Isabel, the repairs will add less than $50,000 in assessed value. According to SDAT these property owners will not receive any assessment increase as new construction out of cycle. The repairs will be picked up during the regular reassessment of the property and will be a part of the phased-in assessment increase.

Based on available data, SDAT indicates that of the properties that have been added back to the tax rolls with significantly better improvements, the average increased assessment is: Anne Arundel County – $150,000; Baltimore County – $166,667; Cecil County – $80,000; and St. Mary's County – $13,000.

Pursuant to this legislation, State special fund revenues could decrease by $64,350 in fiscal 2006, based on the following:

- approximately 3,250 damaged properties were partially or completely removed from the tax rolls after Hurricane Isabel;
- 90% of damaged properties will be rebuilt or repaired by December 31, 2006;
- 40% of the properties are substantially better than what existed prior to the storm; and
- the average assessment increase of those properties that are significantly improved is $125,000.

Exhibit 2 shows the potential effect of the bill on special fund revenues for fiscal 2006 through 2010.

Exhibit 2
Revenue Effect of SB 199

	Estimated Increase in Assessable Base	Amount Eligible For Credit	State Revenue Decrease	Local Revenue Decrease
FY 2006	$48,750,000	$48,750,000	($64,350)	($487,500)
FY 2007	97,500,000	97,500,000	(128,700)	(975,000)
FY 2008	146,250,000	146,250,000	(193,050)	(1,462,500)
FY 2009	n/a	146,250,000	(193,050)	(1,462,500)
FY 2010	n/a	146,250,000	(193,050)	(1,462,500)

State general fund expenditures would increase in an amount equal to the decrease in the Annuity Bond Fund revenues in order to meet debt service payments. Revenues and expenditures could vary depending on the actual assessed value of each eligible property.

Local Fiscal Effect: As show in Exhibit 2, local government revenues could decrease by approximately $487,500 in fiscal 2006, assuming an average local rate of $1.00 per $100 of assessment. Revenues could vary depending on the actual assessed value of each property.

Additional Information

Prior Introductions: None

Cross File: HB 343 (Delegate Jennings, *et al.*) – Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Montgomery County, Prince George's County, Baltimore City, Department of Legislative Services

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