HB 940

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 940 (Delegate Hixson, *et al.*)
Ways and Means

Property Tax - Assessment Freeze for Elderly Homeowners

This bill prohibits increases in the assessed value of residential property owned and occupied by an individual who is at least 65 years old with gross income of $50,000 or less and a net worth not exceeding $250,000. This restriction does not apply if during the previous calendar year: (1) the property was not the owner's principal residence; (2) ownership of the property changed; (3) the property value increased due to a change in zoning classification; (4) the use of the property changed substantially; (5) extensive improvements were made to the property; or (6) the previous assessment was erroneous.

The bill takes effect July 1, 2006 and applies to assessments for all taxable years beginning after July 1, 2006.

Fiscal Summary

State Effect: State special fund revenues could decrease by $6.2 million beginning in FY 2008, with out-year estimates reflecting increases in property values. 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. State expenditures could increase by $3.1 million in FY 2008. Future year expenditures reflect annualization and inflation.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$0	($6.2)	($12.9)	($20.1)	($27.9)
SF Expenditure	0	3.1	3.1	3.2	3.4
Net Effect	$0	($9.3)	($15.9)	($23.3)	($31.3)

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

Local Effect: County revenues could decrease by $33.9 million beginning in FY 2008. Future years reflect increasing property values. Expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: There are no prohibitions against increases in the assessed value of residential property owned and occupied by individuals age 65 and over.

Background: The Homeowners' Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.,* the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income.

In fiscal 2005, the State Department of Assessments and Taxation (SDAT) received 62,758 applications for the credit and issued actual tax credits to 48,601 applicants. The average credit received statewide was $820. The total amount of tax credits reimbursed to local governments equaled $39.85 million. In fiscal 2006, SDAT received 62,973 applications for the credit and issued actual tax credits to 46,189 applicants. The average credit received statewide was $857. The total amount of tax credits reimbursed to local governments equaled $39.6 million, plus a deficiency appropriation of $2.1 million.

The Homestead Property Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or "cap" in any given year. The State requires the cap on assessment increases to be set at 10% for State property tax purposes; however, local governments have the authority to lower the rate. In fiscal 2007, 15 of the 24 local jurisdictions have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, several municipalities have also lowered assessment caps below 10%.

The Homestead Property Tax Credit Program has provided significant local property tax relief in recent years. This foregone revenue for county governments is estimated at $622.4 million in fiscal 2007 and $902.2 million in fiscal 2008. While the State has set the assessment cap at 10%, many jurisdictions have an assessment cap below 10%. The tax relief associated with an assessment cap below 10% is estimated at $97.1 million in fiscal 2007 and $187.4 million in fiscal 2008. The extent to which the Homestead Property Tax Credit Program may actually restrict the ability of a local government to raise property tax revenues depends on the locality's need for revenues from the property tax and other legal and practical limitations. For example, a county impacted by a charter-imposed property tax limitation measure would presumably reduce tax rates to offset the impact of rising assessments in the absence of the homestead credit.

Exhibit 1
Counties with Assessment Caps Below 10% in Fiscal 2007

County	Cap	County	Cap	County	Cap
Anne Arundel	2%	Dorchester	5%	Prince George's	3%
Baltimore City	4%	Frederick	5%	Queen Anne's	5%
Baltimore	4%	Garrett	5%	St. Mary's	5%
Carroll	7%	Howard	5%	Talbot	0%
Cecil	8%	Kent	5%	Worcester	3%

Source: State Department of Assessments and Taxation

State Revenues: Freezing the property tax assessments of elderly homeowners could decrease State special fund revenues by an estimated $6.2 million in fiscal 2008 as shown in **Exhibit 2**. This decrease is based on the following facts and assumptions:

- 21% of owner-occupied properties would have assessments frozen;
- property values will increase by approximately 8% annually;
- there were approximately 1.36 million owner-occupied property accounts in the State in fiscal 2005; the average assessment for residential real property is $206,000 for fiscal 2006;
- approximately 62,973 homeowners tax credit applicants would have qualified for an assessment freeze in fiscal 2006; and
- approximately 235,000 tax credit applications would be processed annually by SDAT.

Exhibit 2
Estimated State and Local Revenue Decrease
Fiscal 2008

County	Owner Occupied Properties	FY 2006 Assessment	County Tax Rate	State Revenue Decrease	County Revenue Decrease
Allegany	16,994	$69,713	$1.0007	$28,374	$215,103
Anne Arundel	141,141	192,930	0.9310	652,169	1,086,056
Baltimore City	96,158	76,211	2.3080	175,513	1,477,582
Baltimore	205,905	154,691	1.1150	762,850	3,102,555
Calvert	23,882	212,323	0.8920	121,444	820,664
Caroline	7,753	120,956	0.9100	22,460	154,836
Carroll	47,217	199,393	1.0480	225,484	1,551,925
Cecil	23,989	158,572	0.9800	91,106	676,391
Charles	37,129	186,647	1.0260	165,974	1,290,074
Dorchester	7,985	111,338	0.9200	21,292	90,175
Frederick	60,807	200,013	1.0000	291,285	1,340,882
Garrett	6,815	90,639	1.0000	14,794	68,102
Harford	66,708	176,794	1.0820	282,457	2,315,292
Howard	71,614	246,976	1.1695	423,604	2,280,508
Kent	5,231	148,609	0.9920	18,618	85,020
Montgomery	235,045	310,396	0.9670	1,747,327	12,800,491
Prince George's	183,419	155,104	1.3190	681,356	2,434,949
Queen Anne's	13,705	236,643	0.8700	77,675	311,079
St. Mary's	23,476	174,293	0.8720	97,997	393,368
Somerset	5,168	77,934	0.9900	9,646	72,347
Talbot	10,300	203,184	0.5200	50,123	0
Washington	34,165	136,770	0.9480	111,913	803,736
Wicomico	20,659	117,610	0.9930	58,192	437,760
Worcester	14,333	153,840	0.7300	52,810	104,450
Total				**$6,184,460**	**$33,913,342**

Debt service payments on the State's general obligation bonds are paid from the Annuity Bond Fund. Revenue sources for the fund include State property taxes, premium from bond sales, and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The fiscal 2007 State budget allowance includes

$656.2 million for the Annuity Bond Fund and assumes a $46.8 million ending fund balance that could be available in fiscal 2008. State general funds are not being appropriated to the Annuity Bond Fund in fiscal 2007.

To offset the reduction in State property tax revenues, general fund expenditures could increase in an amount equal to the decrease in the Annuity Bond Fund revenues or the State property tax rate would have to be increased in order to meet debt service payments. This assumes that the Annuity Bond Fund does not have an adequate fund balance to cover the reduction in State property tax revenues.

Future revenue decreases would depend on increases in the assessed values of property and the number and value of assessments which are frozen, as well as those that no longer qualify for the assessment freeze.

State Expenditures: SDAT advises that there would be approximately 298,000 applicants for an assessment freeze, assuming a maximum participation rate. The department already processes applications for about 63,000 of these individuals through the homeowners' tax credit program. Therefore, the department would be required to process an additional 235,000 applications annually.

As a result, general fund expenditures could increase by an estimated $3.1 million in fiscal 2008. This estimate reflects the cost of hiring 59 office clerks to process credit applications. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$2,832,468
Additional equipment	243,670
Operating Expenses	44,096
Total FY 2008 State Expenditure	**$3,120,234**

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: Assuming that 21% of the owner-occupied residential property base is frozen and an 8% annual increase in property values for those counties with 10% homestead caps and up to the county homestead cap in the other counties, county revenues would decrease by approximately $33.9 million as shown in Exhibit 2. By fiscal 2011, local revenues could decrease by over $149 million.

Additional Comments: A 1977 opinion of the Attorney General indicated that this type of property assessment modification could violate Article 15 of the Maryland Declaration of Rights, which requires that all "like" properties be assessed in an identical manner.

Additional Information

Prior Introductions: This bill was introduced as SB 550 in the 1998 session. It received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: None.

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

Fiscal Note History: First Reader - March 20, 2006
nas/hlb

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