

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 211 (Senator Jacobs, *et al.*)  
 Budget and Taxation

Homeowner's Property Tax Assessment Cap

This bill reduces the percentage used to determine the Homestead Property Tax Credit for State, county, and municipal property tax purposes from 10% to 5%, thereby limiting annual assessment increases for owner-occupied residential properties to 5%, instead of 10%.

The bill takes effect October 1, 2006 and applies to taxable years beginning after June 30, 2007; the bill terminates September 30, 2009.

Fiscal Summary

**State Effect:** Special fund revenues could decrease by approximately \$33.3 million in FY 2008 and by \$95.0 million in FY 2010. 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. Out-years reflect increasing assessments and the cap imposed by the bill.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	\$0	(\$33.3)	(\$65.9)	(\$95.0)	\$0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$33.3)	(\$65.9)	(\$95.0)	\$0

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

**Local Effect:** Local government revenues could decrease by approximately \$115.6 million in FY 2008 and by \$329.7 million in FY 2010. Out-years reflect increasing assessments and the cap imposed by the bill.

**Small Business Effect:** None.

## Analysis

**Current Law:** The cap on property assessment increases is set at 10% for State property tax purposes. A county or municipal corporation can lower the cap percentage to 0% for local property tax purposes.

**Background:** The Homestead Tax Credit Program (assessment caps) provides tax credits against State, county, and municipal corporation 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 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 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.

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

<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>	<b>County</b>	<b>Cap</b>
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: Department of Assessments and Taxation

**State Fiscal Effect:** The bill lowers the Homestead Tax Credit percentage from 10% to 5%. As discussed above, the Homestead Tax Credit caps property tax liability at 10% of the assessment increase. As a result of the bill, revenues decrease approximately \$33.3 million in fiscal 2008 for the Annuity Bond Fund and \$95.0 million by fiscal 2010.

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 year revenue losses increase as a result of the difference between increasing assessments and the 5% cap imposed by the bill. **Appendix 1** outlines the revenue impact of the bill for both State and local governments.

**Local Fiscal Effect:** The bill significantly affects local government revenue depending on the local government Homestead Tax Credit percentage. Local governments that have a Homestead Tax Credit percentage above the cap imposed by the bill (5%) would realize a revenue decrease as a result of the bill. It is assumed that counties and municipalities with homestead percentages of 5% and lower would not be affected by the bill. The local governments that would be negatively impacted by the cap imposed by the bill would realize a revenue loss of approximately \$115.6 million in fiscal 2008 and \$329.7 million in fiscal 2010.

For the purposes of the estimate, it is assumed that State and local tax rates remain the same. Local governments and the State may raise their tax rates to make up for the loss in revenues. Future year revenue losses increase as a result of the difference between increasing assessments and the 5% cap imposed by the bill.

## Additional Information

**Prior Introductions:** A similar bill was introduced as HB 1175 in the 2004 session. The bill received an unfavorable report from the House Ways and Means Committee.

**Cross File:** HB 68 (Delegate McMillan, *et al.*) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 7, 2006  
ncs/hlb

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**Appendix 1**  
**Effect on State and Local Revenues of Capping the Homestead Property Tax Credit**  
**Percentage at 105%**

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
<b>State of Maryland</b>	(\$33,317,596)	(\$65,850,769)	(\$94,977,830)
<b>Allegany</b>	(326,367)	(621,716)	(888,140)
Barton	(114)	(207)	(285)
Cumberland	(178,231)	(352,143)	(519,537)
Frostburg	(7,368)	(13,460)	(18,667)
Lonaconing	(167)	(297)	(399)
Luke	-	-	-
Midland	(145)	(267)	(369)
Westernport	(1,550)	(2,879)	(4,011)
<b>Anne Arundel</b>	-	-	-
Annapolis	(1,135,313)	(2,249,452)	(3,250,335)
Highland Beach	-	-	-
<b>Baltimore City</b>	-	-	-
<b>Baltimore</b>	-	-	-
<b>Calvert</b>	(4,134,525)	(8,402,996)	(12,509,002)
Chesapeake Beach	(156,229)	(307,598)	(441,658)
North Beach	(41,266)	(81,011)	(116,026)
<b>Caroline</b>	(670,429)	(1,320,311)	(1,914,153)
Denton	(35,490)	(67,928)	(96,215)
Federsburg	(24,786)	(52,513)	(81,296)
Goldsboro	(243)	(359)	(418)
Greensboro	(7,403)	(13,295)	(17,867)
Henderson	(62)	(113)	(157)
Hillsboro	(418)	(798)	(1,122)
Marydel	(31)	(58)	(84)
Preston	(7,129)	(15,171)	(23,594)
Ridgely	-	-	-
Templeville	(17)	(30)	(41)
<b>Carroll</b>	(3,899,270)	(7,698,869)	(11,143,326)
Hampstead	(19,166)	(37,049)	(52,649)
Manchester	(13,943)	(27,111)	(38,661)
New Windsor	(1,993)	(3,726)	(5,179)
Sykesville	(44,870)	(82,112)	(111,874)
Taneytown	(72,560)	(154,533)	(240,719)
Union Bridge	(3,030)	(6,379)	(9,870)
Westminster	(93,247)	(196,345)	(303,744)
Mount Airy	-	-	-
<b>Cecil</b>	(1,963,182)	(4,020,998)	(6,065,528)
Cecilton	(1,421)	(2,658)	(3,747)
Charlestown	(9,407)	(19,910)	(30,908)
Chesapeake City	(3,083)	(5,514)	(7,472)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Elkton	-	-	-
North East	(19,886)	(41,993)	(65,023)
Perryville	(34,771)	(73,626)	(114,362)
Port Deposit	(8,028)	(16,983)	(26,237)
Rising Sun	(13,885)	(27,714)	(40,540)
<b>Charles</b>	(6,579,342)	(13,438,484)	(20,152,211)
Indian Head	(31,149)	(59,911)	(85,439)
La Plata	(131,445)	(279,742)	(435,349)
Port Tobacco	(50)	(106)	(165)
<b>Dorchester</b>	-	-	-
Brookview	-	-	-
Cambridge	-	-	-
Church Creek	-	-	-
East New Market	-	-	-
Eldorado	-	-	-
Galestown	-	-	-
Hurlock	(5,783)	(10,448)	(14,297)
Secretary	-	-	-
Vienna	-	-	-
<b>Frederick</b>	-	-	-
Brunswick	(45,986)	(84,174)	(115,595)
Burkittsville	-	-	-
Emmitsburg	-	-	-
Frederick City	-	-	-
Middletown	-	-	-
Myersville	-	-	-
New Market	-	-	-
Rosemont	-	-	-
Thurmont	-	-	-
Walkersville	(51,434)	(101,021)	(144,637)
Woodsboro	-	-	-
Mount Airy	-	-	-
<b>Garrett</b>	-	-	-
Accident	-	-	-
Deer Park	-	-	-
Friendsville	-	-	-
Grantsville	(123)	(221)	(298)
Kitzmiller	-	-	-
Loch Lynn Heights	(91)	(177)	(252)
Mountain Lake Park	-	-	-
Oakland	-	-	-
<b>Harford</b>	(11,046,540)	(22,450,823)	(33,507,831)
Aberdeen	(227,966)	(483,691)	(749,795)
Bel Air	(178,050)	(345,540)	(494,108)
Havre de Grace	(73,135)	(131,927)	(180,440)
<b>Howard</b>	-	-	-
<b>Kent</b>	-	-	-
Betterton	(2,222)	(4,199)	(5,881)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Chestertown	(44,432)	(86,155)	(122,427)
Galena	(5,262)	(10,973)	(16,793)
Rock Hall	(6,581)	(11,657)	(15,466)
Millington	(2,306)	(4,723)	(7,098)
<b>Montgomery</b>	<b>(73,836,818)</b>	<b>(144,089,785)</b>	<b>(205,298,455)</b>
Barnesville	(856)	(1,573)	(2,132)
Brookeville	(2,146)	(4,102)	(5,732)
Chevy Chase, Section 3	(3,099)	(6,000)	(8,482)
Chevy Chase, Section 5	-	-	-
Chevy Chase, Town of	(18,536)	(35,947)	(50,865)
Chevy Chase View	(3,787)	(7,017)	(9,539)
Chevy Chase Village	(83,898)	(162,718)	(230,246)
Gaithersburg	(647,440)	(1,327,073)	(1,980,885)
Garrett Park	(30,997)	(56,439)	(75,778)
Glen Echo	(4,434)	(8,639)	(12,278)
Kensington	-	-	-
Laytonsville	(4,388)	(8,915)	(13,186)
Martin's Addition	(1,475)	(2,861)	(4,049)
North Chevy Chase	(4,496)	(8,739)	(12,396)
Poolesville	(85,353)	(157,538)	(214,170)
Rockville	(1,227,022)	(2,373,369)	(3,354,263)
Somerset	(12,187)	(22,188)	(29,780)
Takoma Park	(517,887)	(939,989)	(1,257,222)
Washington Grove	(11,707)	(24,780)	(38,294)
<b>Prince George's</b>	<b>-</b>	<b>-</b>	<b>-</b>
Berwyn Heights	(72,889)	(134,863)	(183,570)
Bladensburg	(64,690)	(137,843)	(214,945)
Bowie	-	-	-
Brentwood	-	-	-
Capitol Heights	-	-	-
Cheverly	(119,338)	(253,693)	(394,033)
College Park	-	-	-
Colmar Manor <sup>2</sup>	-	-	-
Cottage City	(25,755)	(54,885)	(85,494)
District Heights	(118,302)	(252,306)	(393,389)
Eagle Harbor	-	-	-
Edmonston	-	-	-
Fairmount Heights	-	-	-
Forest Heights	-	-	-
Glenarden	-	-	-
Greenbelt	(296,689)	(546,694)	(745,432)
Hyattsville	(268,105)	(498,087)	(682,251)
Landover Hills	-	-	-
Laurel	(529,534)	(1,042,270)	(1,498,422)
Morningside	(36,766)	(78,443)	(122,367)
Mount Rainier	(76,070)	(140,578)	(193,883)
New Carrollton	(170,011)	(362,684)	(565,666)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
North Brentwood <sup>2</sup>	(3,400)	(6,295)	(8,639)
Riverdale Park	(83,273)	(153,606)	(210,146)
Seat Pleasant	-	-	-
University Park	(120,107)	(221,653)	(301,487)
Upper Marlboro	-	-	-
<b>Queen Anne's</b>	-	-	-
Barclay	-	-	-
Centreville	(43,355)	(78,967)	(107,105)
Church Hill	-	-	-
Queenstown	-	-	-
Sudlersville	-	-	-
Queen Anne	-	-	-
Millington	(75)	(114)	(135)
Templeville	-	-	-
<b>St. Mary's</b>	-	-	-
Leonardtwn	(7,486)	(14,422)	(20,479)
<b>Somerset</b>	(302,143)	(609,277)	(904,017)
Crisfield	(16,753)	(32,284)	(45,909)
Princess Anne	(21,129)	(42,322)	(63,327)
<b>Talbot</b>	-	-	-
Easton	(126,954)	(232,817)	(319,217)
Oxford	-	-	-
St. Michaels	-	-	-
Trappe	-	-	-
Queen Anne	-	-	-
<b>Washington</b>	(3,068,017)	(6,248,234)	(9,408,217)
Boonsboro	(16,200)	(29,739)	(41,080)
Clear Spring	(1,507)	(3,204)	(4,979)
Funkstown	(1,079)	(1,906)	(2,580)
Hagerstown	(460,784)	(895,177)	(1,283,306)
Hancock	(11,536)	(24,516)	(38,120)
Keedysville	(8,279)	(17,652)	(27,490)
Sharpsburg	(3,583)	(7,616)	(11,825)
Smithsburg	(5,778)	(10,554)	(14,755)
Williamsport	(14,926)	(31,734)	(49,333)
<b>Wicomico</b>	(1,577,231)	(3,162,580)	(4,678,776)
Delmar	(21,840)	(44,382)	(66,408)
Fruitland	(17,456)	(31,568)	(42,806)
Hebron	(9,487)	(19,764)	(30,109)
Mardela Springs	(784)	(1,360)	(1,776)
Pittsville	(5,122)	(9,554)	(13,203)
Salisbury	-	-	-
Sharptown	(9,020)	(18,238)	(26,905)
Willards	(5,346)	(10,055)	(14,021)
<b>Worcester</b>	-	-	-
Berlin	-	-	-
Ocean City	-	-	-



	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Pocomoke City	(21,209)	(39,935)	(55,916)
Snow Hill	-	-	-
<b>State Revenue Decrease</b>	<b>(\$33,317,596)</b>	<b>(\$65,850,769)</b>	<b>(\$94,977,830)</b>
<b>Local Revenue Decrease</b>	<b>(\$115,619,459)</b>	<b>(\$228,161,638)</b>	<b>(\$329,660,566)</b>

Note: Estimate assumes no change in current rates and projected assessment increases; counties and municipalities with homestead percentages at or below 5% are not assumed to be affected by the bill.

Source: State Department of Assessments and Taxation, Department of Legislative Services

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