

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

**FISCAL AND POLICY NOTE**

Senate Bill 361  
 Budget and Taxation

(Senator Dyson, *et al.*)

Ways and Means

**Property Tax - Assessment of Conservation Property**

This bill establishes conservation property as a separate subclass 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 takes effect June 1, 2006 and applies to tax years beginning after June 30, 2006.

**Fiscal Summary**

**State Effect:** Special fund revenues could decrease by \$28,500 in FY 2007 and by \$36,800 in FY 2011 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 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	(\$28,500)	(\$30,700)	(\$32,600)	(\$34,400)	(\$36,800)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$28,500)	(\$30,700)	(\$32,600)	(\$34,400)	(\$36,800)

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

**Local Effect:** Local property tax revenues could decrease by \$205,400 in FY 2007 and by \$263,200 in FY 2011. 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 a Maryland Agricultural Land Preservation Foundation 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 \$28,500 in fiscal 2007 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 \$205,400 in fiscal 2007 as shown in Exhibit 2.

## Additional Information

**Prior Introductions:** This bill is identical to SB 295 of 2005 as amended by the Senate. No action was taken by the House. Its cross file, HB 518, received an unfavorable report from the House Ways and Means Committee. Similar bills were also introduced as SB 480/HB 1106 in 2004, and SB 750 in 2002. 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. SB 750 was vetoed by the Governor for policy reasons.

**Cross File:** HB 1275 (Delegate James, *et al.*) – Ways and Means.

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

**Fiscal Note History:** First Reader - February 20, 2006  
ncs/hlb

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**Exhibit 1**  
**Total and Estimated Eligible Conservation Acres by County**  
**Fiscal 2007 – 2011**

<u>County</u>	<u>Total Acres</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Allegany	1,039	0	189	0	0	0
Anne Arundel	1,158	8	17	0	0	0
Baltimore City	31	0	0	23	0	0
Baltimore	15,088	130	585	808	551	891
Calvert	2,101	0	0	634	135	0
Caroline	3,496	0	607	379	0	0
Carroll	822	0	0	0	58	0
Cecil	5,135	0	125	103	55	0
Charles	5,771	0	0	0	30	383
Dorchester	9,122	91	91	38	865	412
Frederick	6,935	46	0	0	0	120
Garrett	1,291	0	16	79	0	47
Harford	2,904	40	13	0	103	59
Howard	1,234	20	232	243	0	0
Kent	8,204	230	285	79	370	318
Montgomery	2,115	0	0	71	16	0
Prince George's	452	75	75	0	0	0
Queen Anne's	7,088	47	47	25	0	333
St. Mary's	3,585	0	0	0	0	0
Somerset	3,566	148	148	364	148	0
Talbot	10,400	305	837	0	441	1,017
Washington	3,927	0	0	0	0	0
Wicomico	1,536	0	0	24	0	0
Worcester	5,279	0	59	0	0	0
<b>Total</b>	<b>102,279</b>	<b>1,141</b>	<b>3,325</b>	<b>2,869</b>	<b>2,773</b>	<b>3,580</b>

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**Exhibit 2**  
**Estimated State and Local Revenue Decreases Resulting From SB 361**

	<u><b>FY 2007</b></u>	<u><b>FY 2008</b></u>	<u><b>FY 2009</b></u>	<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>
<i>State</i>					
Subject to Credit	(3,629)	(5,824)	(7,717)	(9,547)	(11,910)
Pre-15 Year Credit	(24,875)	(24,875)	(24,875)	(24,875)	(24,875)
<b>Revenue Decrease</b>	<b>(\$28,504)</b>	<b>(\$30,699)</b>	<b>(\$32,592)</b>	<b>(\$34,422)</b>	<b>(\$36,785)</b>
<i>Local Governments</i>					
Subject to Credit	(26,361)	(41,456)	(56,200)	(69,080)	(84,042)
Pre-15 Year Credit	(179,165)	(179,165)	(179,165)	(179,165)	(179,165)
<b>Revenue Decrease</b>	<b>(\$205,526)</b>	<b>(\$220,621)</b>	<b>(\$235,365)</b>	<b>(\$248,245)</b>	<b>(\$263,207)</b>

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