

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 685

(Senators Klausmeier and Kasemeyer)

Budget and Taxation

Property Tax - Credit for Continuing Care Retirement Communities

This bill requires State, county, and municipal governments to grant a specified property tax credit to continuing care facilities.

The bill takes effect October 1, 2006 and applies to taxable years beginning after June 30, 2007.

Fiscal Summary

State Effect: State special fund revenues could decrease by approximately \$7,300 in FY 2008. 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 reflect increased credit amounts due to increasing assessments. No effect on expenditures.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	\$0	(\$7,300)	(\$12,500)	(\$15,500)	(\$16,500)
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	\$0	(\$7,300)	(\$12,500)	(\$15,500)	(\$16,500)

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

Local Effect: Local government property tax revenues could decrease by approximately \$243,300 in FY 2008. Future year revenues reflect increased credit amounts due to increasing assessments. No effect on expenditures. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: The property tax credit under the bill must be granted if there is an increase in the property tax assessment. The credit is calculated by: (1) multiplying the prior year's taxable assessment by the homestead tax credit percentage; (2) subtracting the amount from the current year's assessment; and (3) if the difference is a positive number, multiplying the difference by the applicable property tax rate.

The State Department of Assessments and Taxation (SDAT) is required to give notice of the possible property tax credit under the bill and a taxpayer who meets the requirements must be granted the property tax credit against the property tax imposed on the real property of the continuing care facility. SDAT must adopt rules and regulations to implement the tax credit.

Current Law: The Homestead 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.

Background: A continuing care facility is a facility furnishing or making available shelter and either medical and nursing services or other health related services to an individual 60 years of age or older not related by blood or marriage to the provider for the life of the individual or for a period in excess of one year under one or more written agreements that require a transfer of assets or an entrance fee notwithstanding periodic charges.

There are 15,227 continuing care units licensed by the Department of Aging in Maryland. There are an additional 1,655 units that are approved in either new or expanding communities.

State Fiscal Effect: This bill provides a property tax credit for continuing care facilities that is calculated the same way as the homestead tax credit. Under current law, continuing care facilities are part taxable and part nontaxable. Areas that are used exclusively for religious worship, administration or for providing nonprofit services and activities to the residents, and areas licensed for nursing care, domiciliary care, comprehensive care, or health care are nontaxable. The living units in these facilities are taxable. Individuals pay a fee for their individual unit and then pay a monthly fee for services provided by the facility. The units are not transferred to individuals but remain in the name of the facility. Upon death or leaving the facility, all or some of the initial fee may be returned to the individual or his/her heirs. However, the individual may not sell the unit or receive any gains from increased property values.

State special fund revenues could decrease by approximately \$7,300 in fiscal 2008 as shown in **Appendix 1**. The estimate is based on current living units at continuing care facilities, current and projected property assessments, the State homestead tax credit percentage, and the State tax rate of \$0.132 per \$100 of assessment.

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.

Local Fiscal Effect: This bill provides a property tax credit for continuing care facilities that is calculated the same way as the homestead tax credit. As a result, local property tax revenues could decrease by approximately \$243,300 in fiscal 2008. **Appendix 2** shows the projected county property tax revenue decrease per facility. The estimate is based on current living units at continuing care facilities, current and projected property assessments, current county homestead tax credit percentages, and current county tax rates.

Municipal revenues are expected to decline in an amount equal to the State decrease, or approximately \$7,300 in fiscal 2008. As a result, total local property tax revenues could decrease by \$243,300 in fiscal 2008. Future year decreases reflect increasing credit amounts due to rising assessments.

Additional Comments: **Appendix 3** shows continuing care facilities that are either undergoing an expansion or in planning stages for new construction. These facilities could become eligible for the credit which could increase the amount of State and local property tax revenue lost due to the credit. In addition, two facilities would not be eligible for the credit because they are either eligible for the homestead credit or are exempt from property taxation.

Finally, the credit under the bill must be granted against the real property owned by the continuing care facility, rather than the real property owned by the facility and consisting of the living units.

Additional Information

Prior Introductions: None.

Cross File: HB 1009 (Delegate Gordon, *et al.*) – Ways and Means.

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

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

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Appendix 1
Estimated State Special Fund Revenue Decrease
Fiscal 2008 – 2011

<u>Facility</u>	<u>County</u>	<u>Number of Units</u>	<u>Estimated Revenue Decrease</u>			
			<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Ginger Cove	Anne Arundel	349	(260)	(252)	-	-
Roland Park Place	Baltimore City	284	-	-	-	-
Augsburg Lutheran Village	Baltimore	283	-	-	-	-
Blakehurst	Baltimore	345	-	-	-	-
Broadmead	Baltimore	364	-	-	-	-
Charlestown	Baltimore	2001	-	-	-	-
Edenwald	Baltimore	345	-	-	-	-
Glen Meadows	Baltimore	275	-	-	-	-
Maryland Masonic Homes	Baltimore	233	(506)	(975)	(1,404)	(1,790)
Mercy Ridge	Baltimore	455	-	-	-	-
North Oaks	Baltimore	232	-	-	-	-
Oak Crest Village	Baltimore	1911	-	-	-	-
Pickersgill	Baltimore	177	-	-	-	-
Presbyterian Home	Baltimore	100	-	-	-	-
Asbury-Solomons Island	Calvert	372	(2,447)	(4,326)	(5,580)	(6,147)
Carroll Lutheran	Carroll	398	-	-	-	-
Fairhaven	Carroll	438	-	-	-	-
Buckinghams Choice	Frederick	303	-	-	-	-
Vantage House	Howard	294	-	-	-	-
Heron Point of Chestertown	Kent	273	-	-	-	-
Asbury Methodist Village	Montgomery	1264	(2,098)	(3,115)	(2,943)	(1,464)
Bedford Court	Montgomery	355	-	-	-	-
Brooke Grove	Montgomery	32	(1,955)	(3,804)	(5,536)	(7,139)
Maplewood Park Place	Montgomery	258	-	-	-	-
National Lutheran Home	Montgomery	429	-	-	-	-
Riderwood Village	Montgomery	n/a	-	-	-	-
Collington	Prince George's	476	-	-	-	-
Riderwood Village	Prince George's	1929	-	-	-	-
William Hill Manor	Talbot	280	-	-	-	-
Fahrney-Keedy	Washington	113	-	-	-	-
Homewood	Washington	202	-	-	-	-
Special Fund Revenue Decrease		14,770	(\$7,266)	(\$12,473)	(\$15,464)	(\$16,539)

Appendix 2
Estimated County Revenue Decrease
Fiscal 2008 - 2011

<u>Facility</u>	<u>County</u>	<u>Number of Units</u>	<u>Estimated Revenue Decrease</u>			
			<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Ginger Cove	Anne Arundel	349	(\$17,099)	(\$34,121)	(\$51,066)	(\$67,931)
Roland Park Place	Baltimore City	284	-	-	-	-
Augsburg Lutheran Village	Baltimore	283	-	-	-	-
Blakehurst	Baltimore	345	(20,374)	(39,680)	(57,875)	(74,916)
Broadmead	Baltimore	364	-	-	-	-
Charlestown	Baltimore	2,001	(57,312)	(112,222)	(164,634)	(214,448)
Edenwald	Baltimore	345	-	-	-	-
Glen Meadows	Baltimore	275	-	-	-	-
Maryland Masonic Homes	Baltimore	233	(6,121)	(12,192)	(18,212)	(24,179)
Mercy Ridge	Baltimore	455	-	-	-	-
North Oaks	Baltimore	232	-	-	-	-
Oak Crest Village	Baltimore	1,911	-	-	-	-
Pickersgill	Baltimore	177	-	-	-	-
Presbyterian Home	Baltimore	100	-	-	-	-
Asbury-Solomons Island	Calvert	372	(16,538)	(29,236)	(37,710)	(41,538)
Carroll Lutheran	Carroll	398	-	-	-	-
Fairhaven	Carroll	438	-	-	-	-
Buckinghams Choice	Frederick	303	-	-	-	-
Vantage House	Howard	294	-	-	-	-
Heron Point of Chestertown	Kent	273	-	-	-	-
Asbury Methodist Village	Montgomery	1,264	(15,368)	(22,819)	(21,561)	(10,723)
Bedford Court	Montgomery	355	-	-	-	-
Brooke Grove	Montgomery	32	(14,323)	(27,867)	(40,553)	(52,295)
Maplewood Park Place	Montgomery	258	-	-	-	-
National Lutheran Home	Montgomery	429	-	-	-	-
Riderwood Village	Montgomery	n/a	-	-	-	-
Collington	Prince George's	476	(8,490)	(16,601)	(24,322)	(31,641)
Riderwood Village	Prince George's	1,929	(80,207)	(158,719)	(235,484)	(310,450)
William Hill Manor	Talbot	280	(195)	389)	(584)	(778)
Fahrney-Keedy	Washington	113	-	-	-	-
Homewood	Washington	202	-	-	-	-
County Revenue Decrease		14,770	(\$236,025)	(\$453,844)	(\$652,000)	(\$828,901)

Appendix 3
New or Expanding Continuing Care Facilities

	<u>County</u>	<u>Units</u>
Expansions		
Augsburg Lutheran	Baltimore County	42
Edenwald	Baltimore County	66
National Lutheran Home	Montgomery County	15
 New Planned Communities		
Homewood at Frederick MD	Frederick County	341
Goodwill Retirement Village	Garrett County	56
Brooke Grove	Montgomery County	18
King Farm	Montgomery County	330
Riderwood Village	Prince George's County	590
Ravenwood	Washington County	94
Robinwood	Washington County	103
 Not Eligible for Credit		
Baywoods ¹	Anne Arundel County	202
Wesley Home ²	Baltimore City	226

¹Property is a cooperative and eligible for homestead tax credit.

²Property is 100% exempt.
