Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 559   (Senator Pipkin, *et al.*)

Budget and Taxation

State Property Tax Rate Reduction

This bill requires the Governor, beginning in fiscal 2008, to include in the State budget bill a general fund appropriation for the payment of debt service on State bonds in an amount to allow the Board of Public Works to establish a property tax rate of $0.084 per $100 of assessed value for real property other than operating property of a public utility.

Uncodified bill language requires the Governor to transfer $90.0 million from the Revenue Stabilization Account to the Annuity Bond Fund in fiscal 2007 for the payment of debt service requirements for fiscal 2007. It is the intent of the General Assembly that these transferred funds be used to reduce the State property tax rate for real property other than operating property of a public utility to $0.084 per $100 of assessment for fiscal 2007.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Special fund revenues and expenditures would decrease by $90.0 million in FY 2007 and by $235.0 million in FY 2008 and general fund expenditures would increase by a corresponding amount. Future years reflect increased assessments.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	($90.0)	($235.0)	($266.0)	($274.0)	($288.0)
GF Expenditure	90.0	235.0	266.0	274.0	288.0
SF Expenditure	(90.0)	(235.0)	(266.0)	(274.0)	(288.0)
Net Effect	($90.0)	($235.0)	($266.0)	($274.0)	($288.0)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Small business would pay reduced State property taxes.

Analysis

Current Law: The State property tax rate is $0.132 per $100 of assessment. The rate was $0.084 in fiscal 2003.

Background: 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.

State Fiscal Effect: The bill requires a general fund appropriation in an amount necessary to reduce the State property tax rate to $0.084. As a result of reducing the State property tax rate to $0.084, State property tax revenues would decrease by approximately $90.0 million in fiscal 2007 and by $235.0 million in fiscal 2008. General fund expenditures would in turn increase by $90.0 million in fiscal 2007 and by $235.0 million in fiscal 2008 to backfill the amount of the special fund decrease. **Exhibit 1** shows the estimated effect of the bill for fiscal 2007 through 2011. Future years reflect increasing assessments. Reducing the real property tax rate to $0.084 per $100 of assessment results in a savings of $48 for every $100,000 of assessment.

Exhibit 1
General Fund Subsidies Required to Backfill State Property Tax Rate Reduction
Fiscal 2007 – 2011
($ in Millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total
Rate Reduced to $0.084	$90.0	$235.0	$266.0	$274.0	$288.0	$1,153.0

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 14, 2006
ncs/hlb

Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510