

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

Senate Bill 669 (Senator Garagiola, *et al.*)  
 Budget and Taxation

State Property Tax Credit - Dwellings

This bill provides, for fiscal 2007 only, a credit against the State property tax imposed on specified residential dwellings in the amount equal to the lesser of the State property tax rate imposed on either the assessed value of the dwelling or \$50,000. The amount of any Homestead Property Tax Credit or Homeowners' Property Tax Credit must be disregarded for the purpose of calculating the credit. The total amount of the credit and any homestead and homeowners' property tax credits may not exceed the State property tax otherwise imposed on the dwelling.

The bill takes effect July 1, 2006.

Fiscal Summary

**State Effect:** Annuity Bond Fund revenues would decrease by approximately \$94.7 million in FY 2007. The decrease in State special fund revenues would require a general fund appropriation or a property tax rate increase, in order to cover debt service on the State's general obligation bonds.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	(\$94.7)	\$0	\$0	\$0	\$0
Expenditure	\$0	\$0	\$0	\$0	\$0
Net Effect	(\$94.7)	\$0	\$0	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** The State property tax rate is \$0.132 per \$100 of assessment. 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. 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.

**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.

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.

**State Fiscal Effect:** The bill grants a one-time State property tax credit on the first \$50,000 of assessment for all homeowners across the State. The credit is calculated without regard to any homeowners' property tax credit or homestead property tax credit received, except that the sum of all three tax credits may not exceed the total State property tax imposed on the dwelling. The State Department of Assessments and Taxation (SDAT) indicates that there are approximately 1.4 million owner-occupied properties in the State. As a result, Annuity Bond Fund revenues would decrease by \$94.7 million in fiscal 2007, as shown in **Exhibit 1**. The property tax savings would equal \$66 for each owner-occupied property. To the extent that properties have assessed values of less than \$50,000, or if the total of this credit, the homeowners' property tax credit, and the homestead property credit exceed the tax liability, the actual special fund revenue decrease would be lower than estimated.

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**Exhibit 1**  
**Annuity Bond Fund Revenue Decrease**  
**Fiscal 2007**

<u>County</u>	<u>Owner-Occupied Properties</u>	<u>Special Fund Revenue Decrease</u>
Allegany	20,369	(\$1,344,354)
Anne Arundel	146,037	(9,638,442)
Baltimore City	127,228	(8,397,048)
Baltimore	213,331	(14,079,846)
Calvert	24,190	(1,596,540)
Caroline	8,106	(534,996)
Carroll	47,885	(3,160,410)
Cecil	24,433	(1,612,578)
Charles	37,883	(2,500,278)
Dorchester	8,633	(569,778)
Frederick	62,328	(4,113,648)
Garrett	8,189	(540,474)
Harford	67,924	(4,482,984)
Howard	73,238	(4,833,708)
Kent	5,472	(361,152)
Montgomery	248,615	(16,408,590)
Prince George's	186,698	(12,322,068)
Queen Anne's	14,028	(925,848)
St. Mary's	23,718	(1,565,388)
Somerset	5,416	(357,456)
Talbot	10,493	(692,538)
Washington	34,685	(2,289,210)
Wicomico	21,414	(1,413,324)
Worcester	14,442	(953,172)
<b>Total</b>	<b>1,434,755</b>	<b>(\$94,693,830)</b>

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1556 (Delegate Hixson) – Ways and Means.

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

**Fiscal Note History:** First Reader - March 10, 2006  
ncs/hlb

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