HB 1021

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1021 (Delegate Taylor, *et al.*)
Ways and Means

Property Tax - Assessment Growth Limit

This bill limits the annual increase in the property tax assessment of real property owned by an individual who has occupied and maintained the property as a principal residence for at least 25 years to the annual percentage increase in the housing category of the Consumer Price Index (CPI) for all urban consumers for the Washington-Baltimore Metropolitan Area. The limitation imposed by the bill does not apply to any dwelling that has been used as a business or rental property during the preceding 15 taxable years.

The bill takes effect October 1, 2007 and is applicable to taxable years beginning after June 30, 2008.

Fiscal Summary

State Effect: Special fund revenues could decrease by $6.5 million in FY 2009 and $33.6 million by FY 2012. Future year revenues reflect increasing property assessments and the proposed assessment cap. This decrease would require either: (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	$0	($6.5)	($14.2)	($23.2)	($33.6)
Expenditure	$0	$0	$0	$0	$0
Net Effect	$0	($6.5)	($14.2)	($23.2)	($33.6)

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

Local Effect: Local government revenues could decrease by $22.3 million in FY 2009 and $112.6 million by FY 2012. Local expenditures would not be affected.

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 municipality 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 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 2008, 18 of the 24 local jurisdictions will have assessment caps below 10% as illustrated in **Exhibit 1**. In addition, several municipalities have lowered assessment caps below 10%.

Exhibit 1
Counties with Assessment Caps Below 10% in Fiscal 2008

County	Cap	County	Cap	County	Cap
Anne Arundel	2%	Charles	7%	Prince George's	4%
Baltimore City	4%	Dorchester	5%	Queen Anne's	5%
Baltimore	4%	Frederick	5%	St. Mary's	5%
Caroline	5%	Garrett	5%	Talbot	0%
Carroll	7%	Howard	5%	Washington	5%
Cecil	8%	Kent	5%	Worcester	3%

Source: State Department of Assessments and Taxation

The Homestead Tax Credit Program has provided significant State and local property tax relief in recent years. At the State level, the foregone revenue is estimated at $38.1 million in fiscal 2007, $67.7 million in fiscal 2008, and $95.0 million in fiscal 2009. At the local level, the foregone revenue is estimated at $601.3 million in fiscal 2007, $994.0 million in fiscal 2008, and $1.4 billion in fiscal 2009. The tax relief associated with an assessment cap below 10% is estimated at $90.0 million in fiscal 2007, $113.7 million in fiscal 2008, and $241.1 million in fiscal 2009.

The extent to which the Homestead Tax Credit Program may actually restrict the ability of a county to raise property tax revenues depends on the county's need for revenues from the property tax and other legal and practical limitation. 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.

State Fiscal Effect: Special fund revenues for the Annuity Bond Fund would decrease by a significant amount beginning in fiscal 2009 depending on the number of properties eligible for the new assessment limitation, the taxable assessment of these properties, and the change in the CPI from year to year.

However, *for illustrative purposes*, special fund revenues could decrease by $6.5 million beginning in fiscal 2009 and $33.6 million by fiscal 2012, based on the following facts and assumptions:

- there are 323,458 residential properties, as of February 20, 2007, that have not transferred since 1980;
- the number of eligible residential properties will increase by 1% annually;
- the average taxable assessment for residential property is $243,503 in fiscal 2007;
- the average county homestead assessment cap is 6% and the State assessment cap is 10%;
- the average county real property tax rate is $1.01 per $100 of assessment and the State property tax rate is $0.112;
- average residential assessments will increase by the maximum homestead assessment homestead percentage annually; and
- the increase in the CPI will be approximately 3% to 3.5% annually.

Exhibit 2 shows the estimated revenue decrease for fiscal 2009, based on these assumptions.

Inflation Index for Housing

The actual State and local government revenue decrease will be influenced significantly by the annual change in the CPI for the housing category for all urban consumers in the Washington-Baltimore Metropolitan Area. As shown in **Exhibit 3**, the annual change in this housing CPI has ranged from 3.4% in July 2001 to 4.7% in July 2006. During most of this period, the annual CPI change for the Washington-Baltimore Metropolitan Area exceeded the national average by over one percentage point.

The annual change in the CPI for housing in the near future is projected to be lower than in prior years. Based on national data, the CPI for housing is projected to increase by 3.0% in 2007 and 2.1% in 2011. It is assumed that the growth rate will be slightly higher in the Washington-Baltimore Metropolitan Area.

In addition, while home prices are not expected to increase significantly in the near term, it is expected that property assessments would increase by the maximum homestead credit amount, thus bringing current property assessments in line with market prices.

The current Homestead Tax Credit Program (assessment caps) has limited the annual increase in property assessments on owner-occupied homes. Consequently, many owner-occupied homes are assessed for tax purposes below full market value. For example, the median sale price for residential property was $318,000 in fiscal 2006, while the average property assessment was $243,500 in fiscal 2007.

Annuity Bond Fund

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 2008 State budget allowance includes $692.7 million for general obligation debt service costs, of which $43.5 million are from the general fund and $649.2 million are special funds from the Annuity Bond Fund.

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: County property tax revenues could decrease by a significant amount beginning in fiscal 2009. Based on the set of assumptions used above, county property tax revenues could decrease by $22.3 million in fiscal 2009 and by $112.6 million by fiscal 2012, as shown in Exhibit 2.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Montgomery County, Prince George's County, Harford County, Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2007
mll/hlb

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Exhibit 2
Potential Effect of Limiting Property Assessments to Changes in the CPI
Fiscal 2009-2012

State Property Taxes	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Eligible Properties	330,000	333,300	336,600	340,000
Average Assessment – Current Law	$294,700	$324,200	$356,600	$392,300
Average Assessment – HB 1021	$277,000	$286,100	$295,000	$304,100
Property Taxes – Current Law	330	363	399	439
Property Taxes – HB 1021	310	320	330	341
Difference in Property Taxes	-20	-43	-69	-99
Estimated Revenue Decrease	**-$6,541,920**	**-$14,222,578**	**-$23,222,707**	**-$33,586,560**

County Property Taxes	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Eligible Properties	330,000	333,300	336,600	340,000
Average Assessment – Current Law	$273,600	$290,000	$307,400	$325,800
Average Assessment – HB 1021	$266,900	$275,700	$284,200	$293,000
Property Taxes – Current Law	2,763	2,929	3,105	3,291
Property Taxes – HB 1021	2,696	2,785	2,870	2,959
Difference in Property Taxes	-68	-144	-234	-331
Estimated Revenue Decrease	**-$22,331,100**	**-$48,138,519**	**-$78,872,112**	**-$112,635,200**

Source: Department of Legislative Services

Exhibit 3
Annual Change in the CPI – Housing Category

Time Period	Washington/ Baltimore Metro	National Average	Difference
2001	3.4%	4.5%	-1.1%
2002	3.8%	2.1%	1.7%
2003	3.8%	2.6%	1.2%
2004	3.7%	2.4%	1.2%
2005	4.2%	3.0%	1.2%
2006	4.7%	4.0%	0.7%
2007	N/A	3.0%	
2008	N/A	2.4%	
2009	N/A	2.3%	
2010	N/A	2.1%	
2011	N/A	2.1%	

Source: U.S. Bureau of Labor Statistics, and Economy.Com Forecast