Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 871 (Senator Peters)
Budget and Taxation

Real Property Assessments - Market Declines - Revaluation

This bill requires the State Department of Assessments and Taxation to revalue real property outside of the triennial assessment cycle if the median price for homes in a county declines from the preceding calendar year.

Fiscal Summary

State Effect: Potential decrease in State special fund revenues beginning in FY 2010. 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. Potentially significant increase in general fund expenditures beginning in FY 2010 associated with the revaluation of real properties.

Local Effect: Potential decrease in local property tax revenues beginning in FY 2010. Local expenditures would not be affected.

Small Business Effect: None.

Analysis

Current Law: Real property is valued and assessed once every three years. This approach, the triennial assessment process, was part of major property tax reform established in 1979. Under this process, assessors from SDAT physically inspect each property every three years. In any year of a three-year cycle, real property must be revalued if any of the following factors cause a change in the value of the real property • the zoning classification is changed at the initiative of the owner or anyone having an interest in the property; • a change in use or character occurs; • substantially completed improvements are made which add at least $50,000 in value to the property; • an error in calculation or measurement of the real property caused the value to be erroneous; • a residential use assessment is terminated under specified circumstances; or • a subdivision occurs.

Background: The property tax is one of the three major revenue sources for county governments, accounting for 24.6% of total revenues, excluding debt proceeds, and the second largest revenue source for municipal governments, accounting for 31.2% of total revenues, excluding debt proceeds. In fiscal 2004, local governments collected $4.8 billion in property taxes. The property tax is a relatively stable and predictable revenue source for local governments.

Since 2000, property assessments in Maryland have increased significantly. Nationwide, real estate values have risen at a rate of more than five times the rate of inflation. In Maryland, the rate of increase has surpassed the national average. The average three-year increase in the full cash value of property undergoing reassessment totaled 10.1% in 2001 and 60.2% in 2006. Properties reassessed for 2007 realized an increase of 56.1% statewide; whereas, reassessments for 2008 realized an increase of 33.2%. Under the State's triennial assessment process, the increase in the full cash value of property is phased in over a three-year period.

State Revenues: State property tax revenues could decrease beginning in fiscal 2010 to the extent that properties are revalued due to the determination by SDAT that the median price for residential properties in a county declined from the previous calendar year. The number of properties affected in any given year cannot be reliably estimated and would depend on housing market conditions in each county and the State in general. The State property tax is $0.112 per $100 of assessment, so for each $1,000 decrease in assessed value State property taxes would decrease by $1.12.

Exhibit 1 shows the median residential sales price in fiscal 2006 and 2007 and the annual percentage change. Had the bill been in effect in fiscal 2007, properties in counties (Calvert, Carroll, Dorchester, Frederick, Howard Talbot, Washington, and Worcester) would have been revalued under the bill.

Exhibit 1
Median Home Prices
Fiscal 2006 and 2007

County	FY 2006	FY 2007	Percentage Change
Allegany	$87,775	$109,875	25.2%
Anne Arundel	334,900	339,900	1.5%
Baltimore City	140,000	159,625	14.0%
Baltimore	250,000	262,850	5.1%
Calvert	328,000	324,900	-0.9%
Caroline	265,075	275,000	3.7%
Carroll	345,000	340,000	-1.4%
Cecil	257,900	260,000	0.8%
Charles	335,000	348,475	4.0%
Dorchester	220,000	214,000	-2.7%
Frederick	330,000	329,900	0.0%
Garrett	136,000	145,500	7.0%
Harford	260,000	269,900	3.8%
Howard	399,000	392,000	-1.8%
Kent	247,000	264,000	6.9%
Montgomery	425,000	437,750	3.0%
Prince George's	315,000	325,000	3.2%
Queen Anne's	375,000	378,911	1.0%
St. Mary's	293,250	315,000	7.4%
Somerset	145,900	159,900	9.6%
Talbot	368,205	360,000	-2.2%
Washington	242,276	239,450	-1.2%
Wicomico	196,000	200,000	2.0%
Worcester	300,000	265,000	-11.7%
Maryland	**$318,000**	**$315,000**	**-0.9%**

Source: Department of Labor, Licensing, and Regulation; Maryland Department of Planning; State Department of Assessments and Taxation

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 2009 State budget allowance includes $744.8 million for general obligation debt service costs, all of which 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.

State Expenditures: The bill requires SDAT to revalue real property in a county if it is determined that the median residential property sale price declined from the previous calendar year. As noted, it cannot be estimated how many properties would be subject to revaluation. SDAT sends out approximately 500,000 residential assessment notices each year. The agency estimates that each annual residential property valuation costs approximately $40. Based on this, and assuming that 100,000 properties require an out-of-cycle revaluation on an annual basis, SDAT's general fund expenditures could increase by approximately $4.0 million annually for additional staff and operating expenses.

Local Fiscal Effect: Local property tax revenues could decrease beginning in fiscal 2010 as discussed above. Assuming and average county property tax rate of $1.115 per $100 of assessment, county property taxes would decrease by $11.50 for each $1,000 decrease in assessed property value.

Additional Information

Prior Introductions: None.

Cross File: HB 788 (Delegate Hubbard, *et al.*) – Ways and Means.

Information Source(s): Anne Arundel County, Baltimore County, Dorchester County, Garrett County, Montgomery County, Prince George's County, State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Department of Legislative Services

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Analysis by: Michael Sanelli

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