

SB 534

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 534 (Senator Muse)
Budget and Taxation

Valuation of Real Property - Completed Improvements

This bill alters one of the factors that causes the State Department of Assessments and Taxation to revalue outside of the triennial assessment cycle by requiring revaluation when improvements of more than \$50,000 are finally completed, rather than substantially completed as under current law.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Potential decrease in State property tax revenues. Expenditures would not be affected.

Local Effect: Potential decrease in local property tax revenues. 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 Fiscal Effect: The bill alters the timing of when property are to be revalued from when improvements of more than \$50,000 are substantially completed to when they are finally completed. The bill could have the potential of reducing the amount of property tax revenues that are collected. To the extent that the revaluation takes place in a subsequent fiscal year as opposed to when it would take place under current law, revenues for the current fiscal year would decrease. It cannot be determined how many times this may occur in any year.

SDAT indicates that it will be very difficult to determine when improvements are final rather than substantially complete. SDAT currently receives each building permit issued by a local government and, to the extent the permit is for an improvement over \$50,000, the property is reassessed. However, it is not known and cannot be determined when in the process these properties are revalued. In some cases, it may be when the improvements are in the process of being completed and in other instances the revaluation may take place after the improvements are completed. SDAT reports that for substantial improvements, homeowners are supposed to apply for a use and occupancy permit as construction on these improvements is completed. However, SDAT also notes

that is many instances, homeowners fail to do this. As such, it would be difficult for SDAT to determine when improvements are final.

Local Fiscal Effect: The bill could alter the collection of local property tax revenue, as discussed above.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Charles County, Frederick County, Montgomery County, Somerset County, Department of Legislative Services

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ncs/hlb

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