SB 985

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 985 (Senator Peters, *et al.*)
Budget and Taxation

Property Tax Assessments - Local Ordinance Imposing Rent Restrictions or Affordability Requirements - Study and Report

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This bill provides that before a local government enacts an ordinance or adopts a regulation imposing rent restrictions or affordability requirements, it must send the proposed ordinance or regulation to the Department of Business and Economic Development for a specified study. DBED must study the proposed ordinance or regulation and report the effects to the House Ways and Means Committee, the Senate Budget and Taxation Committee, and the local government.

The bill also alters the method by which SDAT values income producing commercial real property by prohibiting SDAT from considering the value of specified income tax credits attributable to the real property as income attributable to the real property.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: Potential decrease in special fund revenues resulting from the assessment of commercial real property. General fund expenditures for DBED could increase depending on the number of reports issued each year.

Local Effect: Potential decrease in local property tax revenues resulting from the assessment of commercial real property. Local government expenditures would not be affected.

Small Business Effect: Minimal.

Analysis

Bill Summary: DBED must study the effect of local ordinances or regulations imposing rent restrictions, affordability requirements, or other restrictions on • valuation and assessment of the class of properties to which the proposed ordinance or regulation would apply; • uniformity within classes; • continued maintenance and capital investment in existing properties within the class; • future construction of properties within the class; and • the tax burden of single-family residential real property and commercial real property in the county or municipality and the State.

DBED may consider any other information in determining the projected fiscal impact of the proposed ordinance or regulation on the State. The report must be completed within 60 days of receipts of the local ordinance or regulation.

Current Law: State agencies are not required to conduct a study prior to local governments imposing rent restrictions and housing affordability requirements.

Chapter 457 of 2005 established a new subclass for commercial real property developed using federal low-income housing tax credits (LIHTCs). Chapter 457 specified the methodology to be used by SDAT when assessing affordable housing developments financed through the use of federal LIHTCs. Specifically, when valuing these properties SDAT: • must consider the impact of applicable rent restrictions, affordability requirements, or any other restrictions required by § 42 of the Internal Revenue Code; • may not consider the federal LIHTCs as income attributable to the real property; and • may consider the replacement cost approach to valuing the property only if it is less than the income approach.

State Revenues: This bill alters the method by which SDAT values all income producing commercial real property by prohibiting SDAT from considering the value of specified income tax credits attributable to the real property as income attributable to the real property. As a result, special fund revenues could decrease to the extent that LIHTCs are excluded from the assessment of commercial property. However, the actual decrease attributable to the bill cannot be reliably estimated.

State Expenditures: DBED must report on the effects of any local rent restriction or housing affordability measures. The department indicates that it lacks the expertise to conduct the required studies and therefore personnel expenditures for the department could increase depending on the number of reports required each year. DBED indicates that one economist, at a cost of approximately $60,000, would be needed beginning in fiscal 2009.

Legislative Services advises that because the number of studies that may be required in any year is unknown, it would be more cost effective for DBED to hire contractual employees with the required expertise on a temporary basis to conduct the studies as the need arises or hire a consultant on a temporary basis to train current staff members so the reports can be done in-house. As a result the actual increase in expenditures could vary from year to year, depending on the number of studies required.

Local Fiscal Effect: This bill could decrease the assessed values placed on income producing commercial real property and therefore decrease property tax revenues to the extent that the value of LIHTCs are currently included in the assessment of commercial properties. However, the amount of any revenue decrease cannot be determined at this time.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Comptroller's Office, Carroll County, Montgomery County, Harford County, Department of Legislative Services

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