

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**

House Bill 337 (Delegate Pena-Melnyk, *et al.*)  
 Ways and Means

**Tax - Property - Property Value Assessments - Disclosure of Improvements**

This bill makes several changes related to the assessment of real property and alters the circumstances under which the State Department of Assessments and Taxation may order a revaluation of real property. Specifically, the bill requires • the seller of real property to disclose, prior to the sale, the existence of a substantial improvement to the property not already reflected in SDAT’s worksheet; • the seller and purchaser to sign a specified disclosure form; • the seller to deliver the disclosure form to SDAT; and • SDAT to revalue real property on the disclosure of a substantial improvement.

**Fiscal Summary**

**State Effect:** Potential increase in State property tax revenues to the extent substantial improvements in real property are not currently assessed. General fund expenditures would increase by at least \$92,000 annually beginning in FY 2009.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	-	-	-	-	-
GF Expenditure	92,000	92,000	92,000	92,000	92,000
Net Effect	(\$92,000)	(\$92,000)	(\$92,000)	(\$92,000)	(\$92,000)

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

**Local Effect:** Potential increases in local property tax revenues to the extent substantial improvements in real property are not currently assessed. Local expenditures would not be affected.

**Small Business Effect:** None.

## Analysis

**Current Law:** Sellers of real property are not required to disclose any substantial improvement to the property that is not listed on SDAT's worksheet. SDAT is not required to revalue property based on undisclosed substantial improvements to real property.

**Background:** 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. No adjustments are made in the interim, except in the case of (1) a zoning change; (2) a substantial change in property use; (3) extensive improvements to the property; or (4) a prior erroneous assessment. The assessor determines the current "full market value" of the property and any increase in value is phased in over a three-year period. Any decrease, however, is recognized immediately for assessment purposes.

**State Fiscal Effect:** The bill adds another occurrence to the list of factors that can cause a revaluation of real property. Accordingly, State property tax revenues could increase, although the amount cannot be reliably estimated and depends on the number of properties that "escape" revaluation during the current process and the value of the improvements.

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. In addition, SDAT monitors the Realtor Multiple Listing (MRIS) sheets for all properties sold to verify that the property records are correct.

In addition, new disclosure forms may have to be provided for the 200,000 property transfers that occur each year. The associated printing and postage cost for these forms totals approximately \$92,000 annually. To the extent the bill increases administrative costs associated with revaluing properties, SDAT's expenditures could increase commensurately.

**Local Fiscal Effect:** Local property tax revenues could increase to the extent that the bill results in properties being reassessed due to the disclosure that the property has had a substantial improvement.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Department of Assessments and Taxation; Charles County; Frederick County; Montgomery County; Prince George's County; Somerset County; Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 12, 2008  
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