

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 81 (Frederick County Delegation)
 Ways and Means

Frederick County - Property Tax Exemption

This bill exempts from the State property tax specified agricultural land in Frederick County that is permanently conveyed or assigned entirely or partly to (1) the Maryland Agricultural Land Preservation Foundation; (2) the Maryland Environmental Trust; (3) the Rural Legacy Board; or (4) the Frederick County Government.

The bill takes effect June 1, 2009 and is applicable for taxable years beginning after June 30, 2009.

Fiscal Summary

State Effect: State property tax revenues decrease by \$23,800 in FY 2010 and by \$24,400 in FY 2014. Expenditures are not affected.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	(\$23,800)	(\$24,000)	(\$24,100)	(\$24,200)	(\$24,400)
Expenditure	0	0	0	0	0
Net Effect	(\$23,800)	(\$24,000)	(\$24,100)	(\$24,200)	(\$24,400)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Small businesses that hold agricultural land in a State or local land preservation program could realize a reduction in State property taxes.

Analysis

Current Law: Generally, certain types of real property, such as government-owned, charitable, benevolent, educational, religious, veterans' organizations, fire companies, historical societies, and museums are exempt from property taxes. In addition, the following are specifically exempted from State property taxation: (1) personal property; (2) property owned or leased by the American Association of Blood Banks; (3) licensed public airports on privately owned land; (4) specified property owned by a land trust; (5) property owned by the Harford Land Trust; (6) property owned by the Maryland State Game and Fish Protective Association; and (7) specified repaired or reconstructed dwellings.

Background: Thirteen counties and Baltimore City have either mandatory or optional property tax credits for specified agricultural land as shown in **Exhibit 1**.

Exhibit 1 Local Property Tax Credits for Specified Agricultural Lands

<u>County</u>	<u>Tax Credit Description</u>
Anne Arundel	real property subject to the State or county agricultural land preservation program (optional)
Baltimore City	credit for property tax imposed on certain real property subject to a perpetual conservation easement donated to the Maryland Environmental Trust on or before June 30, 1986 (mandatory)
Baltimore	agricultural land located in an agricultural preservation district, subject to specified conditions and restrictions (optional)
Calvert	(1) agricultural land located in an agricultural preservation district (county and municipal – mandatory); (2) credit for tax imposed on a building located on land that qualifies for an agricultural use assessment and is used in connection with a recognized and approved agricultural activity (optional)
Caroline	credit of up to 75% of the county tax imposed on agricultural land located in an agricultural preservation district, subject to specified conditions and restrictions (optional)

<u>County</u>	<u>Tax Credit Description</u>
Charles	(1) agricultural land located in an agricultural preservation district; (2) buildings, other than tobacco barns, located on land that qualifies for an agricultural use assessment and used in connection with a recognized and approved agricultural activity (optional)
Dorchester	(1) agricultural land subject to a nutrient management plan; (2) agricultural land located in an agricultural land preservation district or subject to a land preservation easement; (3) forest land subject to a forest management plan (optional)
Frederick	(1) 100% property tax credit for agricultural preservation land; (2) credit for tax imposed on a building located on land that qualifies for an agricultural use assessment and is used in connection with a recognized and approved agricultural activity (optional)
Harford	(1) real property tax on property that is used primarily for an agricultural purpose and does not have an agricultural use assessment; (2) land located in specified agricultural districts or becomes subject to a MALPF easement after July 1, 1988; (3) specified property located in the Harford County Agricultural Land Preservation Program after July 1, 1993, subject to specified conditions and restrictions (optional)
Howard	credit for property tax imposed on real property that is subject to the county's agricultural land preservation program (optional)
Prince George's	credit for agricultural land, including any farm improvement used in connection with an approved agricultural activity, that is subject to a State or county agricultural land preservation program (optional)
St. Mary's	(1) real property subject to Maryland Agricultural Land Preservation District Program or the St. Mary's Agricultural Land Preservation District five-year program; (2) property that was solely used as a tobacco barn and is subject to the tobacco buyout (optional)
Washington	credit for property tax imposed on real property that is subject to the county's agricultural land preservation program (optional)
Wicomico	agricultural land and agricultural easements located in an agricultural preservation district (optional)

State property taxes are special fund revenues used for debt service payments on the State's general obligation bonds. The State property tax rate is \$0.112 per \$100 of assessment. State property tax revenues are projected to total \$750.0 million in fiscal 2010.

State Fiscal Effect: Approximately 42,550 acres of agricultural land in Frederick County are currently subject to a State or local conservation easement. These easements include those for the Maryland Agricultural Land Preservation Foundation (MALPF), Maryland Environmental Trust (MET), Rural Legacy, and local and private conservation organizations that could be eligible for the property exemption proposed by the bill. Land subject to a perpetual agricultural land preservation easement is assessed at \$500 per acre or less, depending on whether the land is being farmed. Assuming the maximum assessment of \$500 per acre, State property tax revenues decrease by approximately \$23,800 in fiscal 2010 and by \$24,400 in fiscal 2014.

Exhibit 2 shows the estimated effect on State property tax revenues assuming an additional 250 acres of land becomes subject to any of the various State or county conservation easements each year.

Exhibit 2
Effect of HB 81 on State Property Tax Revenues

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Property Tax Rate	\$0.112	\$0.112	\$0.112	\$0.112	\$0.112
Assessed Value Per Acre	\$500	\$500	\$500	\$500	\$500
Total Acreage	42,550	42,800	43,050	43,300	43,550
Total Assessed Value	\$21,274,777	\$21,399,777	\$21,524,777	\$21,649,777	\$21,774,777
Property Tax Decrease	(\$23,828)	(\$23,968)	(\$24,108)	(\$24,248)	(\$24,388)

Source: Maryland Department of Planning; Department of Legislative Services

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 2010 State budget allowance includes \$785.0 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.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Frederick County, State Department of Assessments and Taxation, Department of Natural Resources, Department of Legislative Services

Fiscal Note History: First Reader - January 30, 2009
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