

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

Senate Bill 1042 (Senators King and Madaleno)  
 Budget and Taxation

Property Tax - County Administrative Control - Real Property Valuation

This bill transfers the primary responsibility for the assessment of real and personal property from the State Department of Assessments and Taxation (SDAT) to local governments beginning in fiscal 2010.

The bill takes effect July 1, 2010, contingent on the enactment of SB 166/HB 101 with a provision requiring the counties and Baltimore City to reimburse the State for specified costs related to the assessment of real and personal property.

Fiscal Summary

**State Effect:** General fund expenditures decrease by \$37.6 million in FY 2011 and by \$40.3 million in FY 2014. Revenues are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	(37.6)	(37.6)	(38.9)	(40.3)
Net Effect	\$0	\$37.6	\$37.6	\$38.9	\$40.3

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

**Local Effect:** Local government expenditures increase by at least \$37.6 million in FY 2011 and by at least \$40.3 million in FY 2014. Revenues are not affected. **The bill imposes a mandate on a unit of local government.**

**Small Business Effect:** None.

## Analysis

**Bill Summary:** County governments and Baltimore City will be responsible for the assessment of real and personal property. The bill specifies that beginning in fiscal 2010, supervisors and assessors of SDAT are to become county employees and are subject to only general supervisory guidance and oversight by the department. Each county must appoint at least one supervisor of assessments. The State is required to reimburse the counties for (1) 10% of the cost of real property valuation; (2) 10% of the cost of business property valuation; and (3) 25% of the costs of information technology within the offices of the supervisors.

**Current Law/Background:** The following is a discussion on the State and local roles in the property tax assessment process.

### *Assessment of Real and Personal Property*

There is a well-defined statutory relationship between the State and local governments in the administration of the property tax system in Maryland. While property tax revenues are a relatively minor revenue source to the State, the State has assumed responsibility for the valuation and assessment of property. Local governments, on the other hand, levy and collect property taxes. The State takeover of the valuation and assessment function was implemented to provide uniform and equitable assessments of property throughout the State, in compliance with the “uniformity clause” of the Maryland State Constitution. Article 15 of the Declaration of Rights provides that the State shall “by uniform rules, provide for the separate assessment, classification and sub-classification of land, improvements on land, and personal property . . . and all taxes . . . shall be uniform within each class or sub-class . . .”

### *Centralized State Role in Assessing Property*

In 1959, SDAT and the Maryland Tax Court were created. The creation of these two bodies was in response to long-standing concerns about the existing assessment agency – the State Tax Commission – which served as both an assessing authority and an appellate body that ruled on its own assessments. Concerns continued to exist, however, with respect to enforcing a uniform level of valuation and assessment. Assessment ratio studies are performed annually to evaluate the accuracy and uniformity of property assessments. These assessment ratio studies comparing property assessment values and sales prices repeatedly demonstrated a wide range of assessment ratios among the counties prior to the State takeover of property assessments.

The 1960s were a time of considerable appreciation in suburban property values. This appreciation in value was recognized in sporadic reassessments. For example, some

Baltimore County homeowners received 100% assessed value increases in the fall of 1972 because the properties had not been subject to reassessment for 10 years. That same year, a class action suit was brought by property owners from several counties charging that all properties were not being reassessed uniformly.

Responding to mounting concerns and legal challenges to the assessment process, Chapter 784 of 1973 was enacted to require SDAT to assume full cost and supervision of the property assessment function for the entire State. The State's assumption of complete financial responsibility for assessment administration was phased in over a three-year period. The Supervisors of Assessments of the 23 counties and Baltimore City entered State service in 1973. The local assessors became State employees in 1974, followed by the local clerical staffs in 1975. This centralized valuation and assessment system provided the uniformity and consistency in property valuations and assessments sought by Maryland's property owners. Local governments benefit as well from the centralized system because the State covers the cost.

#### *Triennial Assessment Process in Maryland*

Under 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. 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.

Because only one-third of the properties in each county is reassessed in a given year, local governments can rely on prior years' growth in the other two-thirds of the base to reduce the full impact of any one-year decline in assessable base. Conversely, when market values are rising, assessed values lag behind the current market, resulting in a slower annual growth in the assessable base than the market may indicate. As a result, the triennial process and its three year phase-in schedule provide some cushion for taxpayers during periods of dramatically increasing property values and for local governments during a downturn in the housing market.

**State Fiscal Effect:** General fund expenditures decrease by \$37.6 million in fiscal 2011 due to transferring SDAT employees and assessment costs from the State to the local jurisdictions as discussed below.

The proposed fiscal 2010 State budget includes approximately \$41.6 million in expenditures for real and personal property assessments, as well as for information technology related costs within SDAT, as shown in **Exhibit 1**. This includes salaries and associated fringe benefit costs for 411 employees at SDAT's 24 local assessment offices. The number of employees located at each assessment office is shown in **Exhibit 2**. These costs and employees would be shifted to the counties and Baltimore City beginning in fiscal 2011 as the local jurisdictions assume responsibility for the assessment of real and personal property. As a result, State general fund expenditures decrease by \$42.6 million in fiscal 2011, which reflects inflation.

**Exhibit 3** shows the estimated expenditure decreases resulting from the bill for fiscal 2011 through 2014. Future year expenditures reflect the five-year average growth for each unit. The bill also requires that the State reimburse local jurisdictions for (1) 10% of the cost of real property valuation; (2) 10% of the cost of business property valuation; and (3) 25% of the costs of information technology within the offices of the supervisors. This partly offsets the expenditure decrease by an estimated \$4.9 million in fiscal 2011, as shown in Exhibit 3.

**Local Fiscal Effect:** Local government expenditures increase by at least \$37.6 million in fiscal 2011 and by \$40.3 million in fiscal 2014 as a result of assuming the primary role in the assessment of real and personal property. Local expenditures are calculated on the basis of each county's share of real property accounts and business personal property as a percentage of the total. The estimated fiscal 2011 expenditure increase for each local jurisdiction is shown in **Exhibit 4**. The actual cost to local governments may be higher depending upon whether the salary amount for local employees is higher than the amount currently provided to State employees. In addition, in most prior years, salary enhancements for local government employees exceeded the amount provided to State employees.

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**Exhibit 1**  
**SDAT Expenditures in Fiscal 2010**

	<u><b>Total Expenditures</b></u>
Real Property Valuation	\$33,253,208
Business Property Valuation	3,413,679
IT Division	2,730,897
IT Development Fund	2,191,620
 <b>Total</b>	 <b>\$41,589,404</b>

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**Exhibit 2**  
**SDAT Employees at Local Assessment Offices**

<b>County</b>	<b>Assessor Staff</b>	<b>Clerical Staff</b>	<b>Total Employees</b>
Allegany	4	6	10
Anne Arundel	23	10	33
Baltimore City	26	10	36
Baltimore	31	16	47
Calvert	6	5	11
Caroline	2	4	6
Carroll	9	6	15
Cecil	7	3	10
Charles	7	5	12
Dorchester	3	3	6
Frederick	10	8	18
Garrett	5	4	9
Harford	11	7	18
Howard	11	5	16
Kent	3	1	4
Montgomery	31	16	47
Prince George's	29	16	45
Queen Anne's	5	3	8
St. Mary's	5	5	10
Somerset	3	3	6
Talbot	4	3	7
Washington	7	4	11
Wicomico	8	5	13
Worcester	7	6	13
<b>Total</b>	<b>257</b>	<b>154</b>	<b>411</b>

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**Exhibit 3**  
**State Expenditure Decrease – Assessment of Real and Personal Property**  
**Fiscal 2010-2014**

	<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>	<u><b>FY 2012</b></u>	<u><b>FY 2013</b></u>	<u><b>FY 2014</b></u>
Assessment Cost	(\$0)	(\$42,551,485)	(\$42,249,107)	(\$43,758,050)	(\$45,325,394)
Local Reimbursement	0	4,942,795	4,664,570	4,831,292	5,004,424
Total GF Expenditures	<b>(\$0)</b>	<b>(\$37,608,690)</b>	<b>(\$37,584,537)</b>	<b>(\$38,926,758)</b>	<b>(\$40,320,971)</b>

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**Additional Comments:** General funds to support SDAT are included in the proposed fiscal 2010 State budget, but a reduction of \$36.7 million is contingent on the enactment of legislation requiring the counties to pay these costs (SB 166/HB 101). The proposed State budget also includes language to authorize budget amendments to expend the special funds collected from counties.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1524 (Delegates Guzzone and Mizeur) - Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Department of Budget and Management, Baltimore City, Charles County, Frederick County, Montgomery County, Somerset County, State Retirement and Pension System, State Retirement Agency, Department of Legislative Services

**Fiscal Note History:** First Reader - March 24, 2009  
mcp/hlb

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**Exhibit 4**  
**Estimated Increase in County Expenditures**  
**Fiscal 2011**

<b>County</b>	<b>Expenditure Increase</b>
Allegany	\$767,130
Anne Arundel	3,391,139
Baltimore City	3,644,822
Baltimore	4,636,260
Calvert	748,384
Caroline	384,179
Carroll	1,117,633
Cecil	844,239
Charles	1,166,162
Dorchester	463,815
Frederick	1,406,299
Garrett	544,884
Harford	1,552,907
Howard	1,731,011
Kent	327,504
Montgomery	5,254,799
Prince George's	4,477,927
Queen Anne's	495,922
St. Mary's	823,912
Somerset	386,396
Talbot	429,352
Washington	1,040,813
Wicomico	868,044
Worcester	1,105,156
<b>Total</b>	<b>\$37,608,690</b>

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