

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 207 (Senator Stone)
Budget and Taxation

Real Property Tax Assessments - Market Declines - Assessment Notices

This bill requires the State Department of Assessments and Taxation (SDAT) to send a written notice to homeowners, in any year of the three-year assessment cycle that their property is not valued or revalued, if it is determined that the median home price in the county, assessment district, or ward where the property is located has declined by more than 10% from the preceding calendar year.

Fiscal Summary

State Effect: General fund expenditures may increase beginning in FY 2011 depending on the number of counties that experience a decline in its median home price of 10% or more in any year. Based on assessment notices sent for calendar 2009, State expenditures could increase by approximately \$87,000. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The written notice required by the bill must include: the property's current value for assessment purposes; the amount of the current phase-in value; and statements indicating that a 10% decline in the median home price has occurred in the area, that the individual has the right to appeal his/her property assessment, and the availability of valuation records.

Current Law: When a change occurs in the value or classification of any real property, SDAT (supervisor of assessment) must notify the owner or other appropriate person by a written notice of the proposed change. This notice is required for (1) an increase or decrease in an existing real property value; (2) a change in the classification of the real property; (3) establishment of an initial real property value; (4) a decision on an assessment appeal or a petition to change an existing real property value or classification; and (5) a revaluation or reclassification, if a valuation or classification has been appealed but not finally determined.

Background: 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.

Current Assessment Notices

In December 2008, SDAT sent out 731,611 assessment notices for properties reassessed during 2008. Each assessment notice is a six page document that provides important information to taxpayers. For example, page 2 contains an explanation of the homestead property tax credit, page 3 contains property tax assessment information, page 4 contains an explanation of the property tax appeal procedure, and pages 5 and 6 contain the application for the homestead property tax credit.

State Fiscal Effect: General fund expenditures for SDAT and the Property Tax Assessment Appeals Board (PTAAB) may increase, beginning in fiscal 2011, depending on the number of counties realizing a 10% or more decline in its median home price.

As noted, SDAT assesses one-third of residential properties in each county every year and sends out assessment notices to these homeowners detailing current assessment information. The bill requires SDAT to notify homeowners in the other portions of the county as to their current property assessment if it is determined that the property values declined by more than 10% from the prior year. As shown in **Exhibit 1**, for assessments conducted during the past six years, only two counties experienced assessment declines of 10% or more – Worcester and Montgomery, both of which occurred in the past year. In the last 10 years, these were the only two occasions where there was a market decline of 10% or more in any year.

As a point of reference, if the bill was currently in effect, SDAT would be required to provide homeowners in Montgomery and Worcester counties that were not reassessed during the current assessment cycle, current assessment information. It is assumed that this would take the form of the phase-in amount for the year as shown on the most recent assessment notice. Current printing and mailing costs for assessment notices are \$0.06 per page and \$0.42 postage. Under the scenario discussed, new assessment notices would need to be sent to about 161,000 homeowners in Montgomery County and to 21,000 homeowners in Worcester County. Assuming a one-page mailing, State expenditures could have increased by \$87,000.

Exhibit 1
Full Cash Value Assessment Increase Before Phase-in
Value as of July 1

| County | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------------|--------------|--------------|--------------|--------------|--------------|-------------|
| | Group 1 | Group 2 | Group 3 | Group 1 | Group 2 | Group 3 |
| Allegany | 10.6% | 10.6% | 21.4% | 43.3% | 34.5% | 16.8% |
| Anne Arundel | 49.0% | 47.6% | 65.9% | 55.4% | 34.9% | -0.3% |
| Baltimore City | 18.5% | 21.6% | 45.6% | 58.5% | 75.0% | 20.9% |
| Baltimore | 19.3% | 38.1% | 53.4% | 64.8% | 32.6% | 13.3% |
| Calvert | 29.7% | 50.4% | 71.7% | 69.7% | 38.3% | 3.1% |
| Caroline | 25.0% | 38.9% | 49.7% | 73.6% | 40.6% | 13.4% |
| Carroll | 35.9% | 42.2% | 54.0% | 56.9% | 37.4% | 5.1% |
| Cecil | 20.5% | 33.1% | 56.7% | 54.0% | 33.3% | 2.5% |
| Charles | 27.5% | 47.2% | 70.2% | 62.6% | 41.4% | -4.6% |
| Dorchester | 19.4% | 32.5% | 60.8% | 58.5% | 34.5% | 6.8% |
| Frederick | 33.5% | 56.0% | 60.9% | 52.2% | 27.4% | -4.7% |
| Garrett | 11.1% | 39.2% | 47.6% | 38.3% | 29.0% | 8.5% |
| Harford | 25.5% | 37.6% | 48.2% | 55.5% | 38.6% | 9.0% |
| Howard | 39.3% | 48.5% | 58.7% | 50.3% | 24.2% | -2.3% |
| Kent | 30.6% | 46.5% | 36.8% | 65.2% | 37.3% | 13.5% |
| Montgomery | 51.8% | 65.0% | 63.3% | 43.4% | 16.2% | -10.6% |
| Prince George's | 32.8% | 40.1% | 60.6% | 79.5% | 51.6% | 14.6% |
| Queen Anne's | 40.9% | 48.3% | 58.7% | 50.1% | 36.8% | 7.2% |
| St. Mary's | 19.1% | 37.2% | 57.2% | 84.3% | 49.0% | 8.2% |
| Somerset | 17.1% | 49.5% | 65.0% | 79.6% | 45.5% | 4.4% |
| Talbot | 31.3% | 47.9% | 53.5% | 54.8% | 42.7% | 13.6% |
| Washington | 21.4% | 32.4% | 58.6% | 64.7% | 40.2% | 3.0% |
| Wicomico | 16.9% | 21.3% | 40.2% | 53.2% | 40.6% | 5.1% |
| Worcester | 55.5% | 26.7% | 78.9% | 54.1% | 33.3% | -12.7% |
| State Average | 36.0% | 46.6% | 60.2% | 56.1% | 33.2% | 0.8% |

Source: State Department of Assessments and Taxation

To the extent that the new assessment notices required by the bill result in an increased number of assessment appeals, both to SDAT and PTAAB, expenditures may increase for both agencies. However, the amount of any increase cannot be reliably estimated and depends on the number of appeals that result from new assessment notices. Data provided by SDAT indicates that approximately 4% of assessments were appealed to SDAT between fiscal 2000 and 2005; this number increased to 5% for fiscal 2006 and 2007 and to almost 7% for 2008, as shown in **Exhibit 2**. **Exhibit 3** shows the number of assessments appealed to PTAAB from calendar 2005 to 2009, as detailed in the fiscal 2009 budget.

Exhibit 2
Property Tax Assessment Appeals - SDAT
(In Thousands)

| <u>Group</u> | <u>Notices Sent</u> | <u>Number Appealed</u> | <u>Percent Appealed</u> |
|----------------|---------------------|------------------------|-------------------------|
| 2000 – Group 3 | 632.4 | 23.4 | 3.7% |
| 2001 – Group 1 | 686.1 | 24.7 | 3.6% |
| 2002 – Group 2 | 690.9 | 30.4 | 4.4% |
| 2003 – Group 3 | 646.3 | 26.5 | 4.1% |
| 2004 – Group 1 | 647.5 | 25.9 | 4.0% |
| 2005 – Group 2 | 702.3 | 30.9 | 4.4% |
| 2006 – Group 3 | 710.6 | 33.4 | 4.7% |
| 2007 – Group 1 | 677.1 | 32.5 | 4.8% |
| 2008 – Group 2 | 735.8 | 49.3 | 6.7% |

Source: State Department of Assessments and Taxation

Exhibit 3
Property Tax Assessment Appeals – PTAAB

| | <u>2005</u> <u>Actual</u> | <u>2006</u> <u>Actual</u> | <u>2007</u> <u>Actual</u> | <u>2008</u> <u>Estimated</u> | <u>2009</u> <u>Estimated</u> |
|---------------|------------------------------|------------------------------|------------------------------|---------------------------------|---------------------------------|
| Appeals Filed | 6,940 | 8,788 | 8,963 | 9,500 | 9,500 |

Source: Property Tax Assessment Appeals Board

To the extent that the assessments in a ward or assessment district, rather than the one-third of the county being assessed in a given year “triggers” the notification requirement, the associated costs could occur more often as it is possible that assessment declines could occur in some neighborhoods while not in the county as a whole.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Kent, Montgomery, and Worcester counties; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Office of the Attorney General (Consumer Protection Division); Department of Legislative Services

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