

Department of Legislative Services
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 960

(Senator Brinkley, *et al.*)

Budget and Taxation

Property Tax Exemption - Farm or Agricultural Property Subject to an Easement

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

The bill takes effect June 1, 2010, and is applicable for taxable years beginning after June 30, 2010.

Fiscal Summary

State Effect: State property tax revenues decrease by \$244,500 in FY 2011. Future years assume an additional 9,000 acres in easements annually. This decrease will require either (1) an increase in the State property tax rate; or (2) a general fund appropriation to cover debt service on the State's general obligation bonds.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	(\$244,500)	(\$249,500)	(\$254,500)	(\$259,600)	(\$264,600)
Expenditure	0	0	0	0	0
Net Effect	(\$244,500)	(\$249,500)	(\$254,500)	(\$259,600)	(\$264,600)

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.

Property that is subject to a perpetual conservation easement through MET receives a 100% State and local property tax credit on the donated land for 15 years. As the credit expires, property taxes must be paid based on assessed value.

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)

The State property tax rate is \$0.112 per \$100 of assessment.

State Fiscal Effect: Approximately 436,550 acres of agricultural land in the State are currently subject to a State conservation easement through MALPF, MET, and the Rural Legacy Board 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 \$244,500 beginning in fiscal 2011, as shown in **Exhibit 2**.

To the extent more acreage comes under easement each year, State property tax revenues will decrease accordingly. *For illustrative purposes*, if 9,000 acres are added each year, based on current MALPF estimates, State property tax revenues will decrease by \$264,600 in fiscal 2015. As noted, land under an MET easement qualifies for a 15-year tax credit. To the extent the property exemption proposed by the bill does not apply to MET properties, at least in the short term, the revenue decrease associated with the exemption will be somewhat less than estimated.

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 proposed fiscal 2011 State budget includes \$833.4 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.

Exhibit 2
Effect of SB 960 on State Property Tax Revenues

Acres Under Conservation Easement

County	MALPF	MET	Rural Legacy	Total
Allegany	678	904	0	1,582
Anne Arundel	4,782	1,284	931	6,997
Baltimore City	0	0	0	0
Baltimore	21,901	11,892	7,575	41,368
Calvert	4,754	1,801	1,660	8,215
Caroline	30,717	1,983	3,133	35,833
Carroll	41,889	830	2,882	45,601
Cecil	14,315	3,772	3,004	21,091
Charles	6,718	6,470	2,496	15,684
Dorchester	12,876	8,439	6,548	27,863
Frederick	18,519	3,793	4,061	26,373
Garrett	6,243	120	858	7,221
Harford	13,289	2,561	2,114	17,964
Howard	4,024	1,195	81	5,300
Kent	16,465	16,080	1,285	33,830
Montgomery	4,303	3,633	4,875	12,811
Prince George's	689	126	848	1,663
Queen Anne's	24,373	8,367	4,721	37,461
St. Mary's	9,358	2,108	2,720	14,186
Somerset	4,774	3,426	0	8,200
Talbot	10,761	11,850	1,250	23,861
Washington	11,906	3,434	4,097	19,437
Wicomico	6,593	1,700	1,409	9,702
Worcester	6,492	702	7,112	14,306
Total Acres	276,419	96,470	63,660	436,549
Average per Acre Assessment				\$500
State Property Tax Revenues				(\$244,467)

Source: Maryland Department of Planning; Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: HB 1189 (Delegate Bartlett, *et al.*) - Ways and Means.

Information Source(s): Montgomery County, State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Maryland Department of Agriculture, Department of Planning, Department of Natural Resources, Department of Legislative Services

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