

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 892

(Delegate Niemann, *et al.*)

Ways and Means

Budget and Taxation

Property Taxes - Bicounty Commissions

This bill specifies that the homestead property tax credit applies to any State, county, or municipal property tax, including a tax imposed by a bi-county commission. Bi-county commission includes the Maryland-National Capital Park and Planning Commission (M-NCPPC), the Washington Suburban Sanitary Commission (WSSC), or the Washington Suburban Transit Commission (WSTC). The homestead tax credit percentage that must be used for property taxes imposed by a bi-county commission is 10%.

The bill takes effect June 1, 2010, and applies to taxable years beginning after June 30, 2010.

Fiscal Summary

State Effect: None.

Local Effect: Minimal decrease in Prince George's County property tax revenues for M-NCPPC and WSTC in FY 2011. Future year revenues depend on annual property assessments. This analysis assumes that the homestead property tax credit will apply prospectively to bi-county property taxes beginning in FY 2011. County expenditures are not affected.

Small Business Effect: None.

Analysis

Current Law: The homestead property tax credit (assessment caps) on property assessment increases is set at 10% for State property tax purposes. A county or municipality can lower the cap percentage to 0% for local property tax purposes.

Background: Following is a brief discussion of the homestead property tax credit program, M-NCPPC, and property tax revenues in Prince George's County.

Homestead Property Tax Credit Program

The homestead property tax credit program (assessment caps) provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes resulting from an annual assessment increase that exceeds a certain percentage or "cap" in any given year. The cap is set at 10% for State property tax purposes, while local governments have the authority to lower the rate for local property tax purposes. **Exhibit 1** lists the assessment caps for each county. The homestead property tax credit program has provided significant local property tax relief in recent years. In fiscal 2010, assessment caps reduced the amount of the county assessable base that is taxable by almost 17% statewide. The corresponding foregone revenue is estimated at \$1.4 billion statewide. In Prince George's County, the assessment cap has reduced the county's assessable base by 25.1%, resulting in foregone revenues of \$317.2 million.

Maryland-National Capital Park and Planning Commission

M-NCPPC was established by Chapter 448 of 1927 and has jurisdiction over parks and land use planning in most of Montgomery and Prince George's counties. The commission is governed by Article 28 of the Annotated Code of Maryland.

The commission prepares and administers a general plan for the physical development of the Maryland-Washington Regional District, an area that encompasses almost all of Montgomery and Prince George's counties. In addition, the commission is charged with acquiring and maintaining a system of parks within the metropolitan district in the two counties. The commission also operates a recreation system for Prince George's County. The commission is funded primarily through various property taxes authorized under Article 28 of the Annotated Code of Maryland and imposed by Montgomery and Prince George's counties. In addition, enterprise fund operations are supported by various service fees and charges. **Exhibit 2** shows the amount of property taxes collected in Prince George's County from the various park and planning taxes since fiscal 2007. The exhibit also compares the growth in property tax revenue for M-NCPPC and the county government over the four-year period. As illustrated, property tax revenues for

M-NCPPC have increased at an average annual rate of 14.4% over the last four years compared to 8.7% for the county government.

Transfer of M-NCPPC Revenues to County Governments

Chapter 474 of 2009 required M-NCPPC to transfer \$5 million to Montgomery County and \$60 million to Prince George's County from taxes levied against the assessable base in each respective county. The transfer of funds is not supposed to result in a projected deficit in M-NCPPC funds.

M-NCPPC was required to transfer \$5 million to Montgomery County by October 1, 2009; the funds are only to be expended by the county for purchasing interests in real property to prevent nonagricultural uses of lands designated for agricultural preservation.

M-NCPPC was required to transfer a total of \$60 million to Prince George's County. Payments of \$15 million are due to the county on December 1, 2009; March 1, 2010; December 1, 2010; and March 1, 2011. The uses of these funds are not specified.

Establishing a reoccurring periodic transfer of unexpended property tax revenues from M-NCPPC to Prince George's County may result in park and planning property taxes being spent in a manner not related to the purposes authorized in State law. Furthermore, the TRIM amendment clearly prohibits Prince George's County from raising most taxes or fees without ratification by the voters of the county. In the event that property taxes are periodically transferred from M-NCPPC to the county, the limit on the general property tax in Prince George's County, as specified in the TRIM amendment, is bypassed.

Property Taxes in Prince George's County

The property tax is the second leading source of revenue in Prince George's County, accounting for 22.2% of total revenues in fiscal 2007. State aid is the leading revenue source, accounting for 29.0% of total revenues. Prince George's County collected \$780.2 million in property tax revenues in fiscal 2007, of which 70.8% was retained by the county government. The remaining property tax revenue was distributed to bi-county agencies and enterprise operations as shown in the following table. In Prince George's County, bi-county agencies receive 25.1% of county property tax revenues compared to only 8.0% in Montgomery County. In addition to county property tax revenues, municipalities in Prince George's County collected \$81.2 million in property tax revenues in fiscal 2007.

Property Tax Revenues in Prince George's County
Fiscal 2007
(\$ in Millions)

<u>Government Entity</u>	<u>Revenue Amount</u>	<u>Percent of Total</u>
County Government	\$552.4	70.8%
Enterprise Operations	31.9	4.1%
M-NCPPC	178.6	22.9%
WSSC	0.0	0.0%
WSTC	17.4	2.2%
Subtotal	\$780.2	100.0%
Municipal Governments	81.2	
Total	\$861.4	

Local Fiscal Effect: The bill will have a minimal affect on Prince George's County property tax revenues for M-NCPPC and WSTC in fiscal 2011; WSSC does not receive property tax revenues. The bill specifies that the homestead property tax credit percentage of 10% is applicable to any tax rate imposed by a bi-county commission. As shown in **Exhibit 3**, several counties in Maryland impose special property tax rates to pay for additional services, such as fire protection, parks, transportation, and water management. In all of these counties, except Prince George's, the special tax rates are applied to a homeowner's property tax assessment after the homestead tax credit is applied.

Currently, Prince George's County does not apply the homestead property tax credit on county tax rates imposed for M-NCPPC, the Washington Suburban Transit Commission (WSTC), and Stormwater/Chesapeake Bay Water Quality; the fiscal 2010 real property tax rates for these entities are \$0.279, \$0.026, and \$0.054, respectively, per \$100 of assessment. As such, these rates are not subject to the county's homestead cap which was 3% for fiscal 2009, 5% for fiscal 2010, and 0% for fiscal 2011. This means that these tax rates are applied to each homeowner's phased-in assessment, rather than their taxable assessment after the homestead tax credit is applied.

However, beginning July 1, 2010, bi-county property taxes will be subject to a 10% homestead tax credit cap. The fiscal estimate assumes that the homestead tax credit will be applied prospectively and will be based on the current property assessments used for bi-county tax purposes. Because property tax assessments are expected to remain relatively flat over the next several years, the bill will not result in a significant decrease in county revenues in the near term. On average, properties in Prince George's County

that were reassessed in calendar 2009 realized an 18.4% decrease in their full market value. Due to the relative weak housing market and the large number of foreclosures in the county, property values in Prince George's County are not expected to increase much in the next few years.

Accordingly, applying the homestead property tax credit prospectively to bi-county property taxes should not significantly affect commission revenues in the near term. The actual decrease in revenues will depend on assessable base and homestead tax credit projections, and applicable county tax rates.

Exhibit 4 provides an example of a property tax bill for a Prince George's County homeowner as the taxes are currently imposed. This homeowner has a phased-in assessment of \$375,000 and a taxable assessment (after homestead tax credit) for county tax purposes of \$136,670. As shown, the homeowner owes \$1,558 in State and county property taxes. In addition, the homeowner owes \$1,346 in special taxes for M-NCPPC, WSTC, and stormwater/CBWQ, for a total tax bill of \$2,904. In this example, the homeowner is paying almost 50% of his/her property taxes to bi-county commissions. As noted, special taxes are imposed on the phased-in assessment rather than on the taxable assessment after the homestead tax credit.

Additional Comments: The actual effect on bi-county commission property tax revenues in Prince George's County will depend on whether the homestead tax credit under the bill is applied retroactively to the homeowners "taxable assessment" that is currently used for county tax purposes; or prospectively starting with the current assessment used for bi-county tax purposes. As shown in Exhibit 4, property taxes for county and bi-county purposes are based on different assessment amounts. Under one scenario, the homestead tax credit that is currently used for county tax purposes could also be used for bi-county property taxes. This scenario would reduce bi-county commission property tax revenues by as much as \$78.8 million beginning in fiscal 2011 based on the current 0% credit percentage. If the 10% homestead tax credit percentage amount that is currently used for State tax purposes is imposed, bi-county revenues could decrease by \$21.7 million. However, if the homestead tax credit is applied prospectively, there would only be a minimal impact on bi-county property tax revenues since the current "phased-in assessment" is not expected to increase much in the near term.

Additional Information

Prior Introductions: None.

Cross File: SB 683 (Senator Peters, *et al.*) - Budget and Taxation.

Information Source(s): Baltimore City; Allegany, Harford, Montgomery, Prince George's, Talbot, and Wicomico counties; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Maryland Association of Counties; Maryland Municipal League; Washington Suburban Sanitary Commission; Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2010
ncs/hlb Revised - House Third Reader - March 30, 2010

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Exhibit 1
Homestead Assessment Caps for Maryland Counties

County	FY 2009	FY 2010	FY 2011
Allegany	10%	7%	7%
Anne Arundel	2%	2%	2%
Baltimore City	4%	4%	4%
Baltimore	4%	4%	4%
Calvert	10%	10%	10%
Caroline	5%	5%	5%
Carroll	7%	7%	7%
Cecil	8%	8%	8%
Charles	7%	7%	7%
Dorchester	5%	5%	5%
Frederick	5%	5%	5%
Garrett	5%	5%	5%
Harford	9%	9%	5%
Howard	5%	5%	5%
Kent	5%	5%	5%
Montgomery	10%	10%	10%
Prince George's	3%	5%	0%
Queen Anne's	5%	5%	5%
St. Mary's	5%	5%	5%
Somerset	10%	10%	10%
Talbot	0%	0%	0%
Washington	5%	5%	5%
Wicomico	10%	10%	10%
Worcester	3%	3%	3%

Source: State Department of Assessments and Taxation

Exhibit 2
Property Tax Revenues in Prince George's County
Comparison of M-NCPPC and County General Fund

	<u>Actual</u> <u>FY 2007</u>	<u>Actual</u> <u>FY 2008</u>	<u>Estimated</u> <u>FY 2009</u>	<u>Adopted</u> <u>FY 2010</u>	<u>Avg. Annual</u> <u>% Change</u>
M-NCPPC					
Administration Tax	\$30,285,791	\$35,666,169	\$39,643,000	\$45,315,000	14.4%
Park Tax	106,832,268	126,054,736	139,522,000	160,078,800	14.4%
Recreation Tax	39,482,411	46,577,717	51,696,000	59,183,500	14.4%
Adv. Land Acq Tax	870,498	1,026,533	1,129,603	1,298,300	14.3%
Total	\$177,470,968	\$209,325,155	\$231,990,603	\$265,875,600	14.4%
County General Fund					
Property Tax Revenues	\$549,168,679	\$609,733,020	\$659,102,200	\$705,299,400	8.7%

Exhibit 3
Special County Property Tax Rates
Fiscal 2010

	<u>Real Property Tax Rate</u>	<u>Percent of Total</u>
Charles County		
General Tax	\$0.962	93.8%
Fire District Tax	0.064	6.2%
Total Rate	\$1.026	100.0%
Frederick County		
General Tax	\$0.936	88.0%
Fire District Tax (Urban)	0.128	12.0%
Total Rate	\$1.064	100.0%
Howard County		
General Tax	\$1.0140	88.2%
Fire District Tax (Metro)	0.1355	11.8%
Total Rate	\$1.1495	100.0%
Montgomery County		
General Tax	\$0.683	74.6%
Transit Tax	0.037	4.0%
Fire District Tax	0.105	11.5%
M-NCPPC	0.069	7.5%
Recreation Tax	0.019	2.1%
Storm Drainage Tax	0.003	0.3%
Total Rate	\$0.916	100.0%
Prince George's County		
General Tax	\$0.960	72.8%
M-NCPPC	0.279	21.2%
WSTC	0.026	2.0%
Stormwater	0.054	4.1%
Total Rate	\$1.319	100.0%

Source: Department of Legislative Services

Exhibit 4
Example of Property Tax Bill for a Prince George's County Homeowner Under Current Law

County and State Property Taxes

	<u>Phased-in Assessment</u>	<u>Homestead Credit</u>	<u>Taxable Assessment</u>	<u>Tax Rate</u>	<u>Net Tax</u>
County	\$375,000	\$238,330	\$136,670	\$0.9600	\$1,312
State	375,000	155,656	219,344	0.1120	246
Total				\$1.0720	\$1,558

Bi-county and Special Property Taxes

	<u>Phased-in Assessment</u>	<u>Tax Rate</u>	<u>Net Tax</u>
M-NCPPC	\$375,000	\$0.279	\$1,046
WSTC	375,000	0.026	98
Stormwater/CBWQ	375,000	0.054	203
Total		\$0.359	\$1,346

Source: State Department of Assessments and Taxation; Department of Legislative Services
