Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1539 (Delegate Conaway)
Ways and Means

Baltimore City - Property Taxes - Limitation

This bill prohibits property tax revenues in Baltimore City, beginning in fiscal 2012, from increasing by more than 2% over the amount realized in the preceding tax year. This charter limitation is subject to approval by the voters in Baltimore City by referendum at the 2010 general election. The property tax limitation does not apply to property taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters of Baltimore City prior to the effective date of the bill.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: None.

Local Effect: If adopted, potentially significant reduction in Baltimore City revenues based on the above provisions. This impact will vary by year, and as a result cannot be reliably estimated. Baltimore City expenditures are not directly affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful effect on small business property to the extent property tax assessments and tax rates are capped.

Analysis

Bill Summary: The referendum on limiting property taxes in Baltimore City must take place at the November 2010 general election. Baltimore City and the Baltimore City Board of Elections must carry out all duties necessary to provide for and hold the referendum. If a majority of the votes cast on the question are "For the referred law" the provisions of the bill regarding property tax limitations become effective on the thirtieth day following the official canvass of votes. If a majority of the votes cast on the question are "Against the referred law" the provisions of the bill regarding property tax limitations are of no effect and null and void.

Current Law/Background: While increases in property tax revenues in Baltimore City are not specifically limited by the city's charter, there are several programs that mitigate increases in assessments on property owners. The following is a brief discussion of the State's triennial assessment process, the homestead property tax credit program, constant yield tax rate provision, and property tax limitation measures in other counties.

Triennial Assessment Process

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 the State Department of Assessments and Taxation (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 are 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.

Homestead Property Tax Credit Program

The Homestead Property Tax Credit Program provides tax credits against State, county, and municipal real property taxes for owner-occupied residential properties for the amount of real property taxes attributable to annual assessment increases that exceed a specified percentage in any given year. In other words, any increase in taxable assessments each year is limited to a fixed percentage. 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. The homestead 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%. The corresponding foregone revenue is estimated at $1.4 billion statewide. In Baltimore City, the assessment cap, which is set at 4%, has reduced the city's assessable base by 21%, resulting in foregone revenues of $156.4 million.

Constant Yield Tax Rate

The "constant yield" is a concept that, as property values fluctuate, the tax rate should be adjusted so that the revenue derived from the property tax stays at a constant level from year to year, thus assuring local governments a "constant yield" from its tax source. The constant yield tax rate is the rate that, when applied to the current assessable base, yields the same property tax revenue as in the prior year. Generally, when there is growth in the real property assessable base, the constant yield tax rate is lower than the existing tax rate.

Under the constant yield tax rate law, taxing authorities are required to (1) provide information to the public about the constant yield tax rate and the assessable base and (2) hold public hearings regarding proposals to enact a tax rate that is higher than the constant yield rate. A municipality is exempt from the requirements of the constant yield tax rate law if the difference in revenue generated by the current year's tax rate and the constant yield tax rate is less than $10,000. If a municipality is exempt from the constant yield tax rate law, it is not required to advertise or hold public hearings on the proposed tax rate increase. The municipality may set any tax rate within the limits of its municipal charter. SDAT is required to report to the Attorney General any taxing authority that appears to have violated the requirements of this law. Violating jurisdictions must reduce their property tax rates to the constant yield level and must refund all excessive taxes that have been collected.

Property Tax Limitation Measures in Other Counties

Local property tax limitation measures can affect local property tax rates either by limiting the tax rate a county may impose or by limiting property tax revenue growth. Five counties have provisions in their county charters that limit property tax rates or revenues. Montgomery County limits property tax revenue growth to the increase in the Consumer Price Index (excluding new construction), unless a higher rate of growth is approved by seven of the nine county council members. In Prince George's County, the general property tax rate is capped at $0.96 per $100 of assessed value. Special taxing districts, such as the Maryland-National Capital Park and Planning Commission, are not included under this cap. Anne Arundel County limits property tax revenue growth to 4.5%, or the increase in the Consumer Price Index, whichever is less. In Talbot and Wicomico counties, the total annual increase in property tax revenues is limited to the lesser of 2% or the increase in the Consumer Price Index. Some municipalities also have maximum property tax rates set forth in their charter.

Local Fiscal Effect: Restricting the growth in property tax revenues will impact Baltimore City revenues and will most likely have a negative effect on city services. The property tax is the second leading source of revenue in Baltimore City, accounting for 18.4% of total revenues in fiscal 2007. State assistance is the leading source, accounting for 37.4% of total revenues. Baltimore City is projected to collect $723.5 million in property tax revenues in fiscal 2010 of which $624.4 million is from real property and $99.1 million is from personal property. The city's real property tax rate is currently set at $2.268 per $100 of assessment. Limiting the growth in Baltimore City property tax revenues to 2% over the prior year amount may reduce city property tax revenues in the out-years. For example, city property tax revenues increased by $8.8% in fiscal 2009 and are projected to increase by 6.7% in fiscal 2010.

Real property assessments in Baltimore City increased significantly between fiscal 2000 and 2008. The average three-year increase in the full cash value of property undergoing reassessment totaled 7.3% in 2000 and 75.0% in 2008. However, the continual rapid increase in property assessments halted in 2009, as property valuation declined reflecting the national credit crisis and deteriorating economic conditions. Properties reassessed for 2009 increase by 20.9% and those reassessed for 2010 realized a decrease of 2.6%. The City's total assessable (real and personal property) followed a similar, but less dramatic, pattern. In fiscal 2008, 2009, and 2010, assessments increased by 14.9%, 15.6%, and 13.8%, respectively. However, total assessments are only expected to increase by 1.6% in fiscal 2011.

Exhibit 1 shows the real property assessable base estimate for the tax year beginning July 1, 2010. Assuming city property tax rates remain the same and the homestead assessment cap remains at 4%, revenues from the tax on real property are estimated at $684.5 million in fiscal 2011. This represents a 2% increase over the estimated amount in fiscal 2010.

Exhibit 1
Baltimore City Assessable Base and Estimated
Real Property Tax Revenues
Fiscal 2010 and 2011
($ in Thousands)

	Total County Assessable Base	Net County Assessable Base After Homestead	City Property Tax Rate	Estimated Real Property Tax Revenue[1]
FY 2010	$36,152,390	$29,578,949	$2.268	$670, 851
FY 2011	$36,767,495	$30,181,504	$2.268	$684,517

[1]Does not include property tax revenues from personal property. In fiscal 2010, the city collected approximately $99.1 million in property taxes on personal property.

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

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Property Tax Assessment Appeals Board, Baltimore City, Department of Legislative Services

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