

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 409

(Senator Peters, *et al.*)

Budget and Taxation

Property Tax - Annual Reassessment

This bill requires annual reassessments of real property for property tax purposes, instead of the triennial assessment cycle required under current law. The State Department of Assessments and Taxation (SDAT) must review real property assessments each year rather than once every three years.

The bill takes effect October 1, 2010, and applies to taxable years beginning after June 30, 2011.

Fiscal Summary

State Effect: Special fund revenues increase by approximately \$6.2 million in FY 2012. Future year revenue changes depend on property assessments and the State property tax rate. General fund expenditures increase by \$20.9 million in FY 2012. Future year expenditures reflect annualization and inflation.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	\$0	\$6,220,400	--	--	--
GF Expenditure	\$0	\$20,860,700	\$21,350,600	\$22,262,800	\$23,223,700
Net Effect	\$0	(\$14,640,300)	(\$21,350,600)	(\$22,262,800)	(\$23,223,700)

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

Local Effect: County property tax revenues increase by approximately \$65.1 million in FY 2012. Future year revenue changes depend on assessments and local property tax rates. Expenditures are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Real property is valued and assessed by SDAT once every three years.

Background: The following is a discussion on how property tax assessments are conducted in Maryland and in other states.

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 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. 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.

Assessment Process in Other States

Periodic reassessments are performed to ensure that property owners are taxed uniformly on the current market value of their property. Most states require that real property be reassessed at a frequency of one to five years, as shown in **Exhibit 1**.

State Revenues: State property tax revenues may increase by \$6.2 million in fiscal 2012 since switching from a triennial assessment to an annual assessment process will remove any phased-in assessment for properties that did not receive the homestead property tax credit.

As noted, the bill requires real property to be assessed every year rather than every three years. As a result of this change, the bill removes the current phased-in assessments for nonowner-occupied properties that do not receive a homestead property tax credit. This

will cause the assessment to jump from the current phased-in amount to the full cash value assessment beginning in fiscal 2012, which may result in higher property taxes for these properties. Data provided by SDAT indicates that this could affect approximately 672,100 properties across the State, the majority being commercial properties, resulting in increased State property tax revenues of approximately \$6.2 million in fiscal 2012. **Exhibit 2** shows the number of affected properties for State property tax purposes, the estimated assessable base increase, and the resulting increase in State property tax revenue.

The estimate is based on assessable base estimates for fiscal 2011 and assumes a comparable assessable base estimate for fiscal 2012. To the extent that the actual assessable base estimate varies, the effect on State property tax revenues will vary as well. In addition, for the purposes of these estimates, it is assumed that State and local tax rates remain the same. The extent that the State and local governments alter their tax rates will affect the overall change in property tax revenues.

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 fiscal 2011 State budget allowance includes \$833.4 million for general obligation debt service costs, all of which are special funds from the Annuity Bond Fund.

Future year revenue changes over current estimates depend on property assessments and the State tax rate, neither of which can be reliably estimated at this time. However, it is assumed that the State tax rate will be set at a rate to sufficiently meet debt service requirements, based on annual assessable base estimates.

Exhibit 1
Real Property Assessment Cycles by State

<u>Years in Cycle</u>	<u>State</u>	<u>Number of States</u>
1	Arizona, California, Delaware, District of Columbia, Florida, Georgia, Hawaii, Kansas, Michigan, New Jersey, New Mexico, New York, North Dakota, Pennsylvania, South Dakota, Vermont	16
2	Colorado, Iowa, Missouri	3
3	Arkansas, Maryland , Texas, West Virginia	4
4	Alabama, Illinois, Kentucky, Louisiana, Maine, Mississippi, Oklahoma, Oregon, Virginia, Washington, Wyoming	11
5	Idaho, Indiana, Minnesota, Nevada, New Hampshire, South Carolina, Utah, Wisconsin	8
6	Alaska, Montana, Nebraska, Ohio, Tennessee	5
8	North Carolina	1
9	Massachusetts, Rhode Island	2
10	Connecticut	1

Source: CCH Incorporated; National Conference of State Legislatures; Department of Legislative Services

Exhibit 2
Effect of No Phase-in for Nonowner-occupied Accounts on
State Property Tax Revenue
Fiscal 2012

<u>County</u>	<u>State Nonowner-occupied Accounts</u>	<u>State Tax Base Increase</u>	<u>State Revenue Increase</u>
Allegany	18,417	\$30,734,024	\$34,422
Anne Arundel	46,354	388,759,362	435,410
Baltimore City	95,435	631,140,080	706,877
Baltimore	59,339	686,082,750	768,413
Calvert	15,173	65,618,554	73,493
Caroline	7,176	18,361,505	20,565
Carroll	13,822	111,104,123	124,437
Cecil	19,265	64,896,679	72,684
Charles	18,665	138,145,870	154,723
Dorchester	13,140	17,326,250	19,405
Frederick	23,238	132,578,011	148,487
Garrett	19,313	32,757,948	36,689
Harford	21,444	160,935,694	180,248
Howard	16,602	211,816,370	237,234
Kent	7,069	26,037,663	29,162
Montgomery	61,058	967,434,772	1,083,527
Prince George's	79,837	1,311,517,277	1,468,899
Queen Anne's	9,925	74,340,348	83,261
St. Mary's	18,260	93,535,676	104,760
Somerset	10,463	8,666,379	9,706
Talbot	9,079	118,717,611	132,964
Washington	19,315	110,426,561	123,678
Wicomico	21,386	52,286,545	58,561
Worcester	48,325	100,732,638	112,821
Statewide	672,100	\$5,553,952,690	\$6,220,427

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

State Expenditures: Both SDAT and the Property Tax Assessment Appeals Board (PTAAB) will incur increased expenditures as a result of the shift from a triennial assessment to an annual assessment process.

SDAT Expenditures

The bill shifts the current triennial assessment process to an annual assessment process. As a result, SDAT is required to assess each property on an annual basis, thereby tripling the number of assessments the department currently conducts each year. There are approximately 2.2 million taxable property accounts in the State and approximately 1.6 million are owner-occupied residential properties. Under the current three-year assessment cycle, SDAT assesses approximately 700,000 properties each year. Staffing at the department's local assessment offices includes 215 field assessors, 46 supervisory positions, and 155 clerical staff.

Exhibit 3 shows the number of assessment notices that were sent out from 2000 to 2009 for assessments conducted the prior year.

Exhibit 3
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%
2009 – Group 3	731.6	39.2	5.4%

Source: State Department of Assessments and Taxation

The bill requires an annual assessment of approximately 2.2 million properties. About two-thirds of these properties would be valued via computer modeling, with the remaining one-third via physical inspection. The additional assessments will require a significant increase in staffing over current levels. As a result, general fund expenditures at SDAT will increase by \$18.7 million in fiscal 2012, which accounts for a shift to annual assessment beginning July 1, 2011. This estimate reflects the cost of hiring 205 assessors and 96 clerical support positions to perform and process property assessments, as well as appeals. It includes salaries, fringe benefits, one-time start-up

costs, and ongoing operating expenses. It does not however, include any estimate for new office space which may be necessary to accommodate the new employees.

Salaries and Fringe Benefits	\$15,302,507
Printing, Processing, and Mailing New Forms	2,701,440
Operating Expenses	<u>727,321</u>
Total SDAT Expenditures	\$18,731,268

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

PTAAB Expenditures

PTAABs conduct appeals in matters relating to the assessment of property throughout the State. There is one board in each county and Baltimore City. Each board has four members (three members and one alternate) who are appointed by the Governor for five-year terms. The first appeal of an assessment goes to SDAT, which determines the original assessment. PTAABs serve as the second level of appeal, with subsequent appeals going to the Maryland Tax Court.

PTAABs heard 61% of their cases in calendar 2008, as shown in **Exhibit 4** due to a marked increase in the number of appeals filed in calendar 2008 as compared to 2007. According to the boards, the backlog of cases was due to increased appeals and board member vacancies.

Exhibit 4
Timeliness and Efficiency Measures
Calendar 2007-2011

	<u>Actual</u> <u>2007</u>	<u>Actual</u> <u>2008</u>	<u>Estimated</u> <u>2009</u>	<u>Estimated</u> <u>2010</u>	<u>Estimated</u> <u>2011</u>
Appeals Filed	8,963	14,062	19,000	16,000	15,500
Appeals Heard	7,281	8,618	12,000	13,500	13,500
Clearance Rate	81%	61%	63%	84%	87%
Number of Appeals Pending at Year-end	4,000	5,993	7,500	7,000	6,500

Source: Property Tax Assessment Appeals Boards

Current staffing for boards includes 1 administrator, 1 executive assistant, 5 secretaries, 2 clerks, and 96 board members. Board members are paid \$25 per hour and may only work 6 hours per day and a total of 30 hours per week. In addition, PTAAB currently provides clerical personnel and office space in Baltimore City and four counties (Baltimore, Montgomery, Prince George’s, and Washington). In the other counties, clerical personnel and office space is provided by SDAT.

PTAAB indicates the number of appeals heard by its boards is proportionate to the number of properties that are assessed in a year. It is estimated that the bill would triple the number of appeals heard by PTAAB. As a result, PTAAB’s general fund expenditures increase by \$2.1 million in fiscal 2012, which accounts for the shift to annual assessments beginning July 1, 2011. This estimate reflects the cost of hiring 1 office manager, 1 office supervisor, 6 office secretaries and 15 office clerks to provide administrative and clerical support for new offices in Frederick, Harford, and Howard counties. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as well as an increase in contractual services for board member salaries to accommodate the expected increase in the number of appeals.

Salaries and Fringe Benefits	\$1,078,665
Contractual Services	583,372
Operating Expenses	<u>467,440</u>
Total PTAAB Expenditures	\$2,129,477

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Local Fiscal Effect: The bill significantly affects local government revenue for fiscal 2012 in the same manner as State revenues. County governments will realize an estimated increase of \$65.1 million in fiscal 2012 as shown in **Exhibit 5**.

Future year revenue changes over current estimates depend on property assessments and local tax rates, neither of which can be reliably estimated at this time. However, it is assumed that the local rates will be set at a rate to meet constant yield requirements, based on annual assessable base estimates.

Exhibit 5
Effect of No Phase-in for Nonowner-occupied Accounts on County Property Tax Revenue
Fiscal 2012

County	County Nonowner-occupied Accounts	County Base Increase	County Tax Rate	County Revenue Increase
Allegany	18,416	\$30,734,024	\$0.9829	\$302,085
Anne Arundel	46,154	386,299,654	0.8760	3,383,985
Baltimore City	95,210	590,279,464	2.2680	13,387,538
Baltimore	59,303	676,255,240	1.1000	7,438,808
Calvert	15,253	65,660,020	0.8920	585,687
Caroline	7,175	18,361,505	0.8700	159,745
Carroll	13,822	111,104,123	1.0480	1,164,371
Cecil	19,259	64,896,679	0.9400	610,029
Charles	18,665	138,145,870	1.0260	1,417,377
Dorchester	13,140	17,326,250	0.8960	155,243
Frederick	23,191	132,564,777	1.0640	1,410,489
Garrett	19,313	32,757,948	0.9900	324,304
Harford	21,436	160,069,058	1.0640	1,703,135
Howard	16,610	216,292,838	1.1495	2,486,286
Kent	7,069	26,037,663	0.9720	253,086
Montgomery	61,058	967,434,772	0.9160	8,861,703
Prince George's	79,829	1,311,475,610	1.3190	17,298,363
Queen Anne's	9,919	74,340,348	0.7700	572,421
St. Mary's	18,250	93,090,140	0.8570	797,782
Somerset	10,473	8,666,379	0.9000	77,997
Talbot	9,079	118,717,611	0.4320	512,860
Washington	19,315	110,426,561	0.9480	1,046,844
Wicomico	21,389	52,286,545	0.7590	396,855
Worcester	48,325	100,732,638	0.7000	705,128
Statewide	671,653	\$5,503,955,717		\$65,052,121

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

Small Business Effect: Small businesses that own real commercial property would see an increase in their assessment from their current phase-in amount to the full market value assessment with the shift to an annual assessment in fiscal 2012. As a result, their property tax payments will increase for fiscal 2012.

Additional Information

Prior Introductions: None.

Cross File: HB 538 (Delegates James and Riley) – Ways and Means.

Information Source(s): Charles, Montgomery, and Somerset counties; Maryland Association of Counties; State Department of Assessments and Taxation; Property Tax Assessment Appeals Board; Department of Legislative Services

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