

Department of Legislative Services
Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 123
Ways and Means

(Delegate Lafferty)

Property Tax - Credits for Property in Neighborhood Conservation Area

This bill establishes a State property tax credit for real property located in a specified neighborhood conservation area if a local jurisdiction grants a property tax credit for this specified real property. The amount of the property tax credit may not exceed the State property tax imposed on the real property. The bill also extends from June 30, 2018, to June 30, 2021, the period of time in which real property must be purchased in order to be eligible for the local property tax credit.

The bill takes effect June 1, 2016, and applies to taxable years beginning after June 30, 2016.

Fiscal Summary

State Effect: Special fund revenues decrease to the extent local property tax credits are granted to specified neighborhood conservation property. This decrease may 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. Administrative or operational expenditures can be handled with existing agency budgeted resources.

Local Effect: Potential decrease in local property tax revenues for properties purchased through June 30, 2021, to the extent the property tax credit is granted. The amount of the decrease depends on the number of eligible properties, the assessed value of residential property located in neighborhood conservation areas, and the amount of the tax credit granted.

Small Business Effect: None.

Analysis

Current Law: Chapter 141 of 2012 authorized Baltimore City, counties, and municipalities to grant a property tax credit for owner-occupied residential real property that is purchased from July 1, 2012, through June 30, 2018, and is located in a neighborhood conservation area established or renewed by application to the Department of Housing and Community Development (DHCD) based on the specified criteria adopted by DHCD.

In order to qualify for the tax credit, an individual's principal residence may not have been located in a neighborhood conservation area designated *unless* the individual was not an owner of the property that was the individual's principal residence for the 12-month period immediately prior to purchasing the property; and the residential real property must have been purchased in conformance with the eligibility requirements for the credit.

Local governments must provide, by law, for (1) the amount of the property tax credit authorized for each taxable year after the purchase of the residential real property; (2) the designation of certain geographic areas as neighborhood conservation areas for purposes of the tax credit authorized; (3) any additional limitations on eligibility for the tax credit; and (4) any other provision necessary to implement the tax credit.

Local governments must provide, on an annual basis, a statement certifying qualification for the tax credit and the amount of the tax credit being granted to those individuals qualifying for the property tax credit. This statement may be provided on or with the annual property tax bill or in another manner as chosen by the local government.

By January 1 of the calendar year following the year in which the neighborhood conservation tax credit is initiated, and each succeeding year, local governments that grant the tax credit must submit a report to the Senate Budget and Taxation Committee and the House Ways and Means Committee that describes (1) the tax credit program; (2) the designated neighborhood conservation areas; (3) the number of residential properties within neighborhood conservation areas that qualify for the tax credit; and (4) the economic impact of the tax credits granted on the neighborhood conservation areas.

The State property tax rate for fiscal 2016 is 11.2 cents per \$100 of assessable property. The rate is established by the Board of Public Works, which is required by law to calculate the rate necessary to support debt service on general obligation bonds by May 1 of each year after taking into account the funds available from other sources for debt service. The rate is then applied to the State assessable base.

Background: Baltimore City and Baltimore County currently have a Neighborhood Preservation and Stabilization Property Tax Credit for property purchased in the Waverly

or Landsdowne sections of Baltimore City and the Hillendale, Northbrook, Pelham Woods, or Taylor/Dartmouth sections of Baltimore County. The property tax credit is for a 10-year period and is equal to 40% in the first 5 years and phasing down to 15% in year 10. City and county residents who qualify for the property tax credit may also qualify for a State income tax credit. However, this local property tax credit is not the same credit as authorized under Chapter 141.

State Fiscal Effect: State special fund revenues will decrease to the extent local jurisdictions provide property tax credits to certain real property located in specified neighborhood conservation areas. The Department of Legislative Services is unaware of any local jurisdiction currently granting the specified property tax credit as authorized under Chapter 141. In addition, DHCD indicates that no local jurisdiction has applied to the department to designate a neighborhood conservation area for the purposes envisioned by the 2012 Act. Accordingly, State revenues should not be immediately affected. However, the effect may be modest in future years to the extent local governments enact the local property tax credit.

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 2017 public debt appropriation includes \$1.19 billion for general obligation debt service costs, including \$886.1 million in special funds from the Annuity Bond Fund, \$283.0 million in general funds, \$6.6 million in transfer tax revenues, and \$11.5 million in federal funds.

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.

Local Fiscal Effect: Potential decrease in local property tax revenues continue for properties purchased through June 30, 2021, to the extent the property tax credit is granted. The amount of the decrease depends on the number of eligible properties, the assessed value of residential property located in specified neighborhood conservation areas, and the amount of the tax credit granted.

Additional Information

Prior Introductions: HB 335 of 2015 received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Anne Arundel, Garrett, and Montgomery counties; cities of Frederick and Havre de Grace; Department of Housing and Community Development; Maryland Department of Planning; State Department of Assessments and Taxation; Department of Legislative Services

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