

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1441

(Delegate A. Washington)

Appropriations

Homeowners' Property Tax Credit Program - Transfer of Excess Funds (The Maryland Affordable Housing Trust Fund Act of 2017)

This bill requires the Governor to transfer, by budget amendment, any funds not needed to reimburse county governments for property tax credits under the Homeowners' Property Tax Credit Program to the Maryland Affordable Housing Trust Fund. This transfer must occur in any fiscal year that the State appropriation for the Homeowners' Property Tax Credit Program exceeds the amount needed to reimburse county governments for property tax credits.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: General fund revenues decrease and special fund revenues increase in years when budgeted amounts for the Homeowners' Property Tax Credit Program exceed actual program expenditures. The bill does not affect overall program expenditures.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Any appropriated State funds for the Homeowners' Property Tax Credit Program that exceed the required amount needed to reimburse counties for tax credits are reverted to the general fund.

Background: The Homeowners' Property Tax Credit Program is a State-funded program that provides credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The fiscal 2018 State budget includes \$60.0 million in funding for the program. Approximately 50,000 individuals are expected to benefit from the program in fiscal 2018. **Appendix – Homeowners' Property Tax Credit Program** provides a brief description of the program and recent legislative changes.

State Fiscal Effect: The bill requires a transfer of funds from the Homeowners' Property Tax Credit Program to the Maryland Affordable Housing Trust Fund in any fiscal year that the State appropriation for the Homeowners' Property Tax Credit Program exceeds the amount needed to reimburse county governments for property tax credits issued. As a result, general fund revenues will decrease and special fund revenues for the Maryland Affordable Housing Trust Fund will increase in years when budgeted amounts for the Homeowners' Property Tax Credit Program exceed actual program expenditures. **Exhibit 1** shows the budgeted amount and actual expenditures for the Homeowners' Property Tax Credit Program for fiscal 2011 through 2016. As shown in the exhibit, budgeted amounts for the program exceeded actual expenditures in fiscal 2014 through 2016. However, actual expenditures exceeded the budgeted amounts in fiscal 2011 through 2013.

Exhibit 1
Homeowners' Property Tax Credit
Budgeted and Actual Expenditures
Fiscal 2011-2016

<u>Fiscal Year</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Difference</u>
2011	\$55,818,046	\$58,035,574	(\$2,217,528)
2012	56,783,000	62,562,928	(5,779,928)
2013	60,000,000	62,580,806	(2,580,806)
2014	62,294,519	61,591,730	702,789
2015	64,500,000	59,483,562	5,016,438
2016	61,637,325	58,414,602	3,222,723

Source: State Department of Assessments and Taxation

Currently any funds for the Homeowners' Property Tax Credit Program that exceed the required amount needed to reimburse the counties for tax credits are reverted to the general fund on an annual basis. The Homeowners' Property Tax Credit Program is one of

three property tax credit programs that are funded annually through the State budget. The other programs are the Renters' Property Tax Credit Program and the Enterprise Zone Property Tax Credit Program. The Department of Budget and Management advises that if one of these programs has excess funds, these funds may be used to cover deficiencies in the other programs should the need arise. Otherwise, excess funds revert to the general fund. The bill would limit the ability to transfer funds out of the Homeowners' Property Tax Credit Program to those other tax credit programs which could require deficiency appropriations in certain circumstances.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Association of Counties; Department of Budget and Management; Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2017

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Appendix – Homeowners’ Property Tax Credit Program

The Homeowners’ Property Tax Credit Program (Circuit Breaker) is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. **Exhibit 1** shows the number of individuals qualifying for the tax credit and the total cost of the program since fiscal 2005, as referenced in the State budget.

Exhibit 1 Homeowners’ Property Tax Credit Program Fiscal 2005-2018

<u>Fiscal Year</u>	<u>Eligible Applications</u>	<u>State Funding</u>	<u>Average Credit Amount</u>
2005 Actual	48,666	\$39.5 million	\$812
2006 Actual	46,628	41.7 million	894
2007 Actual	48,290	45.6 million	944
2008 Actual	46,618	45.2 million	970
2009 Actual	47,781	50.3 million	1,053
2010 Actual	48,737	53.4 million	1,096
2011 Actual	49,224	58.0 million	1,179
2012 Actual	52,594	62.6 million	1,190
2013 Actual	53,196	62.6 million	1,177
2014 Actual	50,872	61.6 million	1,218
2015 Actual	48,713	59.5 million	1,221
2016 Actual	47,288	58.4 million	1,235
2017 Estimated	48,154	59.9 million	1,244
2018 Estimated	49,599	60.0 million	1,210

Source: Department of Budget and Management

Chapter 27 of 2006 made several significant changes to the Homeowners’ Property Tax Credit Program: the maximum assessment against which the credit may be granted was increased to \$300,000 from \$150,000; and the percentages used to determine the amount of the tax credit were altered.

Chapter 588 of 2005 altered the calculation of total real property tax for the Homeowners’ Property Tax Credit Program by subtracting the homestead tax credit amount from the total

assessment rather than the maximum assessment specified under the credit. Chapter 588 also specified additional eligibility criteria for the local supplement to the Homeowners' Property Tax Credit Program by authorizing a local jurisdiction to alter the \$200,000 limitation on a homeowner's net worth for eligibility for a local supplement to the Homeowners' Property Tax Credit Program.

Since fiscal 1992, the counties and Baltimore City have been authorized to grant a local supplement to the Homeowners' Property Tax Credit Program. SDAT administers a local supplement granted by a county, but the cost of a local supplement is borne by the local government. For purposes of the local supplement, the counties are authorized to alter the maximum on the assessed value taken into account in calculating the credit, as well as the percentages and income levels specified in the tax limit formula. The counties are also authorized to impose limitations on eligibility for a local supplement in addition to the requirements specified for the State credit. Baltimore City and thirteen counties – Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Charles, Frederick, Garrett, Harford, Howard, Kent, Montgomery, and Washington – have a local homeowners' property tax credit supplement program that is administered by SDAT. Data collected by the Department of Legislative Services in 2016 indicates that these jurisdictions granted approximately 19,600 homeowners approximately \$8.1 million in local property tax credits in fiscal 2016, as shown in **Exhibit 2**.

Exhibit 2
Homeowners' Property Tax Credit Program – Local Supplement
Fiscal 2016

County	Number Claiming	Amount Claimed
Anne Arundel	3,521	\$1,142,096
Baltimore City	0	\$0
Baltimore	7,762	1,162,704
Calvert	0	0
Caroline	644	161,048
Carroll	n.a.	13,618
Charles	1,123	938,706
Frederick	0	0
Garrett	441	40,809
Harford	0	0
Howard	179	38,910
Kent	360	222,422
Montgomery	4,747	4,097,149
Washington	850	280,000
Total	19,627	\$8,097,462

Source: Department of Legislative Services

Municipalities are also authorized to provide a supplement to the Homeowners' Property Tax Credit Program. Under the enabling authority for municipalities, a municipal supplement is limited to 50% of the State credit.

Chapter 444 of 2006 altered the calculation and eligibility criteria of the municipal supplement to make it consistent with the current calculation and eligibility criteria authorized under the county supplement program. Chapter 444 also altered the amount of a supplemental municipal credit that may be granted by repealing the limitation that a municipal supplement may not exceed 50% of the Homeowners' Property Tax Credit. SDAT administers municipal homeowners' property tax credit supplement programs in the cities of Gaithersburg, Rockville, Bowie, College Park, Greenbelt, Hyattsville, and Mount Rainier.