

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 10

(Senator Kasemeyer)(By Request - Departmental -
Assessments and Taxation)

Budget and Taxation

Ways and Means

Property Tax Assessments - Physical Inspection of Property

This departmental bill repeals the requirement that the State Department of Assessments and Taxation (SDAT) value all real property based on an exterior physical inspection of the real property. Instead, the bill requires SDAT to value real property based on a review of each property in each three-year cycle. The review by SDAT must include a physical inspection of a property if (1) the value of improvements to the property is being initially established; (2) the value of substantially completed improvements is being established; (3) the property is the subject of a recent sale, and the inspection is deemed necessary by SDAT for purposes of market analysis; (4) the property owner requests a physical inspection as part of an active appeal; (5) the department is notified by a county finance officer that a substantially completed improvement has been made that adds at least \$1.0 million in value to the property; or (6) the department determines that a physical inspection is appropriate. SDAT must perform a physical inspection within 30 days of being notified of a substantial improvement by a county finance officer. **The bill takes effect June 1, 2018.**

Fiscal Summary

State Effect: None. The bill's provisions will not materially affect SDAT's operations or finances as the bill mostly codifies current assessment practices.

Local Effect: None.

Small Business Effect: SDAT has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: Real property is valued and assessed once every three years. Statute requires that the assessments be based on a physical inspection; however, for practical purposes, this does not always happen, and properties that are not valued by a physical inspection within an assessment cycle are instead valued by various computer modeling methods.

Background:

State Assumed Responsibility for Property Assessments

In 1959, Chapter 757 created SDAT and the Maryland Tax Court. The creation of these two bodies was in response to long-standing concerns about the existing assessment agency – the State Tax Commission – which served as both an assessing authority and an appellate body that ruled on its own assessments. Concerns continued to exist, however, with respect to enforcing a uniform level of valuation and assessment. Assessment ratio studies are performed annually to evaluate the accuracy and uniformity of property assessments. These assessment ratio studies comparing property assessment values and sales prices repeatedly demonstrated a wide range of assessment ratios among the counties prior to the State takeover of property assessments.

The 1960s were a time of considerable appreciation in suburban property values. This appreciation in value was recognized in sporadic reassessments. For example, some Baltimore County homeowners received 100% assessed value increases in fall 1972 because the properties had not been subject to reassessment for 10 years. That same year, a class action suit was brought by property owners from several counties charging that all properties were not being reassessed uniformly.

Responding to mounting concerns and legal challenges to the assessment process, Chapter 784 of 1973 was enacted to require SDAT to assume full cost and supervision of the property assessment function for the entire State. The State's assumption of complete financial responsibility for assessment administration was phased in over a three-year period. The Supervisors of Assessments of the 23 counties and Baltimore City entered State service in 1973. The local assessors became State employees in 1974, followed by the local clerical staffs in 1975. This centralized valuation and assessment system provided the uniformity and consistency in property valuations and assessments sought by Maryland's property owners.

Local governments benefit as well from the centralized system because the State bears some of the cost. Today, as a result of Chapter 397 of 2011, the counties and Baltimore City are required to reimburse SDAT for (1) 50% of the costs of real property valuation;

(2) 50% of the costs of business personal property valuation; and (3) 50% of costs incurred by SDAT with regard to information technology. Local expenditures are calculated on the basis of each county's share of real property accounts and business personal property as a percentage of the total.

Staffing Adequacy Study

SDAT reports that since 1975, the number of assessors has decreased from 276 to 161 while the number of real property accounts has almost doubled over that same period of time. A recently released report ([*Executive Branch Adequacy Study*](#)) by the Department of Legislative Services (DLS) indicated that there are over 2.2 million taxable parcels statewide and 144 nonsupervisory assessors in the residential property division. In order to fulfill SDAT's mandate, each assessor would have to visit and reevaluate approximately 5,100 properties each year. In a 2015 report, SDAT noted that an experienced assessor working efficiently can evaluate 2,500 properties per year. There has also been a small but steady growth in the number of taxable parcels in the State. Between 2011 and 2016, the number of properties increased by approximately 53,000. While this equates to only 2.4% total growth over five years, it establishes a need to add between 1 and 2 assessors per year, to keep pace with growth.

The DLS report noted that despite these limitations, SDAT has generally performed well on the assessment industry's three principal metrics for evaluation: the assessment-to-sales ratio; coefficient of dispersion; and price-related differential. These measures evaluate, respectively, that the assessments are generally accurate to the market value, precise among similar properties, and consistent across the spectrum of property values. SDAT performed well within industry standards for all three measures in 2016.

At no point in the last four decades has SDAT had enough assessors to fulfill its mandate to physically inspect each property in the State every three years, and this demonstrates a longstanding and unresolved staffing need. The Office of Legislative Audits noted this issue in 2013 and was informed by SDAT directly that this was a longstanding problem. At that time, the agency reported that it had 78 fewer positions for inspectors than it had in 2002, and its policy was to conduct physical inspections only every nine years unless a triggering event, such as a sale or the filing of a building permit, occurred. While the agency was able to hire 22 additional inspectors in 2013 and 2014, that has not been sufficient to resolve the underlying issue. DLS estimates that 200 additional assessor positions are necessary to meet the agency's statutory mandate of exterior physical inspections every three years.

SDAT uses a variety of assessment techniques including computer modeling, sales analysis, and physical inspections. SDAT advises that the International Association of Assessing Officers, as well as assessment offices in some nearby states, do not require a

physical inspection of all properties. The department notes that most of its current physical inspections are related to new construction and the other factors that trigger an out-of-cycle reassessment.

The bill addresses recommendations made by the Office of Legislative Audits in audit reports from 2013 and 2017.

Additional Information

Prior Introductions: Similar bills were introduced at the 2011 and 2016 sessions. SB 762 of 2011 received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. SB 115 of 2016 passed the Senate and received a hearing in the House Ways and Means Committee, but no further action was taken.

Cross File: None.

Information Source(s): Baltimore, Carroll, Cecil, Harford, Montgomery, Queen Anne's, and St. Mary's counties; Maryland Association of Counties; Property Tax Assessment Appeals Board; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - January 16, 2018
mm/hlb Third Reader - March 16, 2018
Revised - Amendment(s) - March 16, 2018

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Property Tax Assessments – Physical Inspection of Property

BILL NUMBER: SB 10

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PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Not Applicable.