

Department of Legislative Services
 Maryland General Assembly
 2018 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 1047 (Delegate McMillan, *et al.*)
 Ways and Means

Property Tax Appeals – Adverse Decision – Rationale

This bill requires an appeal authority that makes a decision on a property tax appeal that is adverse to a taxpayer to provide the taxpayer who made the appeal with a written statement that specifically states the rationale for the appeal authority’s adverse decision.

Fiscal Summary

State Effect: General fund expenditures increase by \$908,400 in FY 2019 and by \$1.2 million in FY 2023. Special fund revenues and expenditures increase by \$908,400 in FY 2019 and by \$1.2 million in FY 2023. Future years reflect annualization and inflation.

(\$ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	\$0.9	\$1.1	\$1.1	\$1.1	\$1.2
GF Expenditure	\$0.9	\$1.1	\$1.1	\$1.1	\$1.2
SF Expenditure	\$0.9	\$1.1	\$1.1	\$1.1	\$1.2
Net Effect	(\$0.9)	(\$1.1)	(\$1.1)	(\$1.1)	(\$1.2)

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

Local Effect: County expenditures increase by \$908,400 in FY 2019 and by \$1.2 million in FY 2023. Revenues are not affected.

Small Business Effect: None.

Analysis

Current Law/Background: An appeal authority includes a supervisor, State Department of Assessments and Taxation (SDAT), the Property Tax Assessment Appeals Board

(PTAAB), the Maryland Tax Court, and any other court authorized to hear property tax appeals.

The assessment appeal process typically begins with an appeal of the notice of assessment. These notices are mailed in late December, and an appeal may be filed with the supervisor of assessments within 45 days of the date of the notice. For properties that transfer after January 1 but before the beginning of the taxable year, the new owner has 60 days from the date of transfer to file an appeal regarding the property value or classification. Following that appeal, the property owner receives a final notice. If the taxpayer is not satisfied with the outcome, the next appeal must be made to PTAAB within 30 days from the date of the final notice. A further appeal may be taken to the Maryland Tax Court within 30 days of receiving notice from the board. Any further appeals are made through the judicial system, including the circuit court, the Court of Special Appeals, and the Court of Appeals.

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 value 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; (4) a prior erroneous assessment; (5) a residential use assessment is terminated; or (6) a subdivision occurs. 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.

SDAT advises that the department typically receives approximately 25,000 assessment appeals between January 1 and February 13 each year. Appeals at the supervisor level are typically heard between January and May. Approximately 10,500 appeals were made to the county PTAABs in 2016.

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.

State Fiscal Effect: SDAT advises that assessors typically respond to specific concerns raised by appellants at the appeal hearing or subsequent levels of appeals. The department reports that any specific written statement that is provided must be thorough because it may be used as evidence at a subsequent level of appeal. The department also advises that writing these statements is a manual process that must be specific to each appeal, and cannot be automated. In addition, the department is required to issue final determinations within 60 days of holding a hearing, which means assessors often have to finalize two to three appeals a day.

As a result, the department will need 45 additional positions (8 office supervisors and 37 office clerks) at a cost of \$1.8 million to process, review, and mail written statements stating the rationale for the department's appeal decision. This estimate assumes that between 18,000 and 19,000 written statements will be issued each year and that each office clerk will analyze and process 500 statements annually. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	45
Salaries and Fringe Benefits	\$1,560,551
Operating Expenses	<u>256,227</u>
Total FY 2019 State Expenditures	\$1,816,778

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Under current law, the State and county governments share the cost for SDAT's assessment operations (both real property and personal property) as well as the department's information technology operations. As a result, general fund expenditures will increase by \$908,389 in fiscal 2019 and by \$1.2 million in fiscal 2023. Special fund revenues and expenditures from county government reimbursements increase by a commensurate amount.

Local Fiscal Effect: As noted, county governments are required to reimburse SDAT for 50% of the department's real property assessment costs. Therefore, county expenditures increase by \$908,389 in fiscal 2019 and by \$1.2 million in fiscal 2023. **Exhibit 1** shows the expenditure increase by county for fiscal 2019.

Exhibit 1
Local Cost Share Reimbursement

County	FY 2019
Allegany	\$16,138
Anne Arundel	84,070
Baltimore City	92,679
Baltimore	117,290
Calvert	16,799
Caroline	6,523
Carroll	26,313
Cecil	18,459
Charles	25,793
Dorchester	9,052
Frederick	37,869
Garrett	11,559
Harford	38,870
Howard	41,763
Kent	5,260
Montgomery	133,087
Prince George's	115,032
Queen Anne's	10,136
St. Mary's	19,386
Somerset	6,667
Talbot	8,321
Washington	23,093
Wicomico	18,249
Worcester	25,982
Total	\$908,389

Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Tax Court; Property Tax Assessment Appeals Board;
State Department of Assessments and Taxation; Department of Legislative Services

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Analysis by: Michael Sanelli

Direct Inquiries to:
(410) 946-5510
(301) 970-5510