This bill (1) requires that the Department of Housing and Community Development (DHCD), to the extent practicable, reserve 2.5% of community development block grant (CDBG) funds for nonentitlement areas for award to affordable housing land trusts in the nonentitlement areas; (2) establishes the intent of the General Assembly that entitlement areas award 2.5% of CDBG funds to affordable housing land trusts; and (3) exempts specified property held by affordable housing land trusts from State and local real property taxes. The bill takes effect June 1, 2022, and applies to taxable years beginning after June 30, 2022. The property tax provision of the bill terminates June 30, 2062.

Fiscal Summary

State Effect: Annuity Bond Fund (ABF) revenues decrease beginning in FY 2023. The amount of the revenue decrease depends on the number of properties that may be exempt from property tax under the bill and the assessed value of each. 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. Funding for affordable housing trusts may increase by $300,000 annually beginning in FY 2023.

Local Effect: Local property tax revenues decrease beginning in FY 2023. The amount of the revenue decrease depends on the number of properties that may be exempt from property tax under the bill and the assessed value of each.

Small Business Effect: None.
Analysis

Current Law:

Affordable Housing Land Trusts

An affordable housing land trust is an entity that (1) provides affordable housing to low-income families and moderate-income families through an affordable housing land trust agreement and (2) is organized or managed by a specified tax-exempt nonprofit organization or a unit or instrumentality of the State or a political subdivision of the State.

An affordable housing land trust agreement is an agreement between an affordable housing land trust and a purchaser of real property owned by the affordable housing land trust, or for which the affordable housing land trust has a proprietary or reversionary interest, that (1) grants the affordable housing land trust a preemptive right to purchase or repurchase the property, including any improvements on the property; (2) contains language restricting the transfer, lease, sublease, assignment, or occupancy of the property with regard to potential transferees, sublessees, assignees, or occupants, and the price at which the property may be transferred; or (3) imposes other conditions on the use or transfer of the property that would trigger a reversionary interest and that are designed to ensure that the property remains available and affordable to low-income families and moderate-income families.

Major Property Tax Exemptions

The major exemptions from the local property tax are local, State, and federal government property; property of religious organizations; cemeteries and mausoleums; nonprofit hospitals; portions of continuing care facilities for the elderly; property of charitable, fraternal, and educational institutions; property used for national defense or military housing; property of national veterans’ organizations; homes of disabled veterans and the blind (partial exemption), or a surviving spouse of either; property of historical societies and museums; property owned by certain taxpayers engaged in building, operating, and managing nonprofit multifamily units, subject to local government approval; and property owned by fire companies, rescue squads, community water corporations, and housing authorities.

A comprehensive overview on exempt property in Maryland can be found in Chapter 3 of the Guide to the Property Tax Structure in Maryland.

State Fiscal Effect: The bill exempts from State property tax real property that is (1) owned by an affordable housing land trust and (2) not subject to an affordable housing land trust agreement. As a result, ABF revenues decrease beginning in fiscal 2023. The
The amount of the revenue decrease depends on the number of properties owned by an affordable housing land trust that may be exempt from property tax under the bill and the assessed value of each.

The State Department of Assessments and Taxation website indicates that there are 13 affordable housing land trusts in the State: Pages - Affordable Housing Land Trust (maryland.gov).

Debt service payments on the State’s general obligation bonds are paid from the ABF. 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 ABF to make up any differences between the debt service payments and funds available from property taxes and other sources. The Governor’s proposed fiscal 2023 State budget includes $1.4 billion for general obligation debt service costs, including $430.0 million in general funds, $993.0 million in special funds from the ABF, $7.0 million in transfer tax revenues, and $9.0 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 ABF revenues, or the State property tax rate would have to be increased to meet debt service payments. This assumes that the ABF does not have an adequate fund balance to cover the reduction in State property tax revenues.

Community Development Block Grants

The Governor’s proposed fiscal 2023 State budget assumes $12.0 million in pay-as-you-go federal funds for DHCD for nonentitlement areas. Assuming 2.5% of these funds are directed toward affordable housing land trusts, funding for these land trusts would total $300,000 in fiscal 2023.

Local Fiscal Effect: Local property tax revenues decrease beginning in fiscal 2023. The amount of the revenue decrease depends on the number of properties owned by an affordable housing land trust that may be exempt from property tax under the bill and the assessed value of each.

Additional Information

Prior Introductions: None.

Designated Cross File: None.
Information Source(s): Calvert, Caroline, Charles, Montgomery, and Prince George’s counties; Maryland Municipal League; Department of Housing and Community Development; Judiciary (Administrative Office of the Courts); Department of Juvenile Services; State Department of Assessments and Taxation; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2022

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