

Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 736

(Senator Jones-Rodwell)(By Request - Baltimore City
Administration)

Budget and Taxation

Ways and Means

**Baltimore City - Property Tax Credit for Historic or Heritage Properties -
Calculation**

This bill alters the calculation, in Baltimore City, of the local property tax credit for restorations and rehabilitations of historic or heritage properties.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: None.

Local Effect: None. The bill's requirements are not expected to significantly affect Baltimore City revenues or expenditures.

Small Business Effect: None.

Analysis

Bill Summary: For purposes of calculating the property tax credit for properties receiving the credit prior to October 1, 2014, the full cash value of the property is the full cash value prior to phase in as determined by the State Department of Assessments and Taxation (SDAT) through established assessment procedures.

For purposes of calculating the property tax credit for properties receiving the credit on or after October 1, 2014, the full cash value of the property must be determined by an appraisal of the property before commencement and after completion of eligible

improvements by a licensed professional appraiser selected by the Mayor and City Council of Baltimore City.

Current Law: County and municipal governments may (1) implement, by law, a program that provides for a property tax credit not to exceed the difference between the property tax that, but for the tax credit, would be payable after the completion of eligible improvements and the property tax that would be payable if the eligible improvements were not made; and (2) adopt any requirements and procedures that are necessary or appropriate to carry out the property tax credit.

Any property tax credit provided must (1) be subject to eligibility requirements no less stringent than those applicable to credits authorized for historically valuable, architecturally valuable, or architecturally compatible structures; (2) not exceed a period of 10 years; and (3) apply to eligible improvements which are located within the boundaries of a property listed individually on the National Register of Historic Places, or a national register historic or landmark district, a property or district designated as a historic property or district under local law, or a property included within the specified boundaries of a certified heritage area.

Eligible improvements are significant improvements to, or restoration or rehabilitation of, historic or heritage properties.

Background: The Historic Tax Credit was established to provide relief against increases in the property tax for those property owners who complete significant improvements to, or the restoration or rehabilitation of historic or heritage properties (Tax-Property Article, Section 9-204.1). The legislative intent of this credit is to maintain for a period of up to 10 years the taxation level of the restored or rehabilitated property at levels not greater than those in place before the eligible improvements, if approved as part of a local government's plan for such properties.

Over the course of 2013, numerous reports highlighted discrepancies and changes occurring in the Baltimore City Historic Tax Credit Program. Most of these changes were the result of the Baltimore City Finance Department's Billing Integrity Unit administering the calculation of these tax credits for 2013. Previously, going back to 1999, SDAT assisted Baltimore City in calculating the appropriate credit for each eligible account. However, State law stipulates that local governments providing the credit are responsible for calculating any credits required under the tax credit program.

Following the full takeover of the credit calculation by Baltimore City, it became apparent that numerous errors had occurred in the previous calculation of the tax credit. In particular, incorrect assessment values were used for the post-improvement valuation, either due to the fact that a current assessment value was used in lieu of the

post-improvement valuation, or because the post-improvement valuation did not account for appeals and other changes. As these errors were discovered, numerous properties began either losing their credits entirely, or losing large amounts of their credits, resulting in significantly higher property tax bills in 2013. There were also other properties which received lower tax bills in 2013 as well due to similar credit calculation errors. Since that time, numerous changes have taken place that will improve the cooperation between SDAT and Baltimore City.

On October 17, 2013, the Director of SDAT and the Director of the Baltimore City Finance Department, issued a joint letter to the Chairman of the Senate Budget and Taxation Committee which provided an overview of the tax credit calculation problem and the related procedural solution. The directors indicated that the problem resulted from a change in computation methodology by Baltimore City that used assessments that had not been adjusted for certain situations, such as appeals. SDAT and Baltimore City have now developed a new process whereby SDAT will certify the assessment amounts to the city for use in calculating the Historic Tax Credit. Furthermore, in January 2014, Baltimore City announced that it will be providing homeowners who were told they were getting a tax credit but were now deemed no longer eligible that they could receive a lump sum payment for the amount that they would have previously received for up to three years. The estimated cost to Baltimore City could be as high as \$3.0 million and could affect up to approximately 300 property owners.

Additional Information

Prior Introductions: None.

Cross File: HB 876 (Delegate Anderson)(By Request - Baltimore City Administration) - Ways and Means.

Information Source(s): Baltimore City, State Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2014
mc/hlb

Analysis by: Michael Sanelli

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