

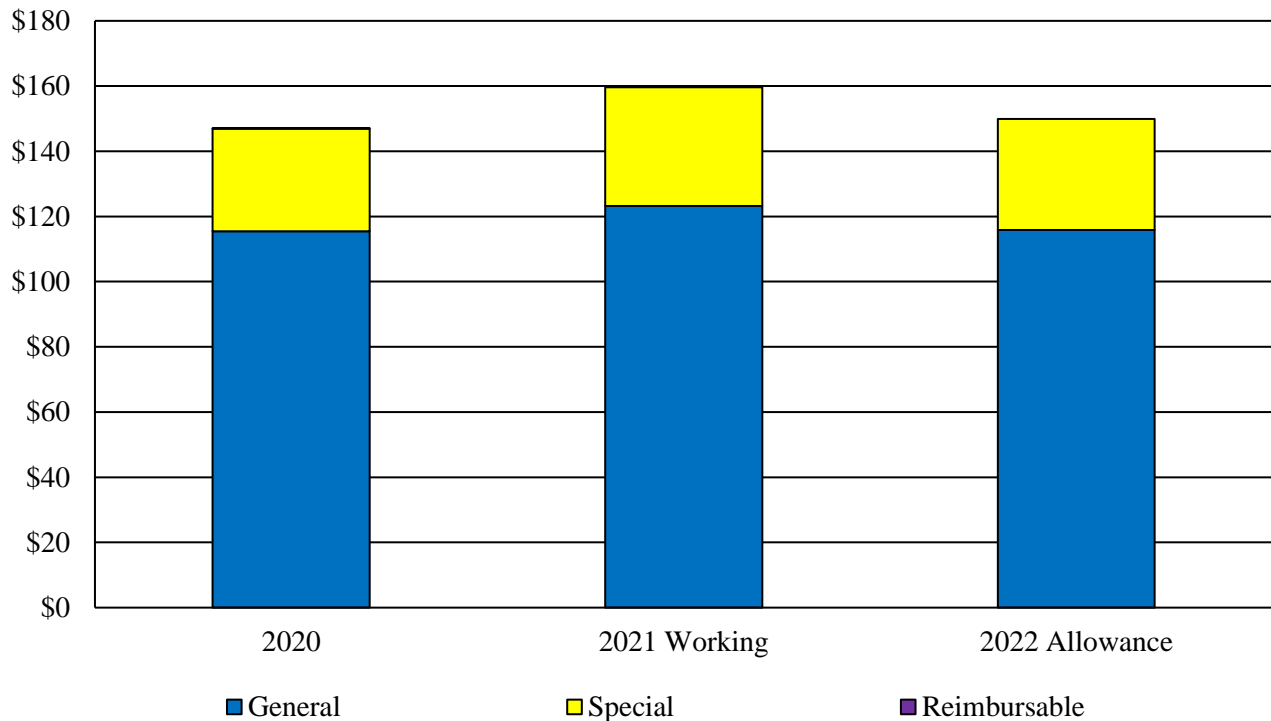
E50C
State Department of Assessments and Taxation

Executive Summary

The State Department of Assessments and Taxation (SDAT) is responsible for overseeing the real and personal property tax structure of the State, including conducting statewide property tax assessments, administering State property tax credit and exemption programs, and processing required business filings.

Operating Budget Summary

Fiscal 2022 Budget Decreases \$9.7 Million, or 6.1%, to \$150 Million
(\$ in Millions)



Note: The fiscal 2021 appropriation includes deficiencies, planned reversions, and a general salary increase. The fiscal 2022 allowance includes contingent reductions and annualization of the fiscal 2021 general salary increase.

- The fiscal 2022 allowance decreases by \$9.7 million, primarily due to reductions in funding for tax credit programs and the Computerized Record Information System Major Information Technology Development Project.

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Key Observations

- ***Property Tax Assessor Vacancies Remain High:*** At the end of calendar 2020, SDAT had a total of 74 vacancies of which 47 were in the Real Property Valuation Division. In December 2020, the agency released a report outlining its hiring activities in fiscal 2020. Despite hiring a number of assessors during the fiscal year, a notable number of these positions remain vacant as individuals continue to exit State service.
- ***Funding and Applications for Tax Credit Programs Decrease:*** The fiscal 2022 allowance includes decreases of \$2.6 million in funding for tax credit programs. Cost containment actions by the Board of Public Works also decreased funding for tax credit programs by \$1 million in fiscal 2020 and \$911,000 in fiscal 2021 due to lower than anticipated spending levels. The number of applicants for the homeowners' and renters' tax credits decreased in fiscal 2020 by 8.0% and 10.2%, respectively.
- ***Property Tax Lien Sales Held in 11 Jurisdictions in 2020:*** SDAT released a report on property tax lien sales in October 2020. The agency reports that although about half of counties either canceled or postponed indefinitely their tax sales during the year due to the COVID-19 pandemic, 10 counties and Baltimore City proceeded with sales during calendar 2020. In several counties, residential properties can be placed into tax sales for relatively small balances of unpaid property taxes.
- ***Proposed Budget Reconciliation and Financing Act Provision Alters County Cost Sharing Amounts:*** The Governor's budget plan includes a proposal to increase the share of local jurisdictions' contributions to fund SDAT operations from 50% to 60% and by an additional 10% in subsequent fiscal years. The fiscal 2022 budget includes a contingent reduction of \$4 million in general funds.

Operating Budget Recommended Actions

1. Adopt committee narrative requesting a report updating the committees on tax lien sales held by jurisdiction during 2021.
2. Adopt committee narrative requesting a report on staffing in the Real Property Valuation Division.

Updates

- A study is currently underway analyzing property reassessment data for successfully appealed properties in order to compare this data to the income levels of the owners of these properties. The goal of the study will be to determine whether or not homeowner income level has any correlation to the properties that were successfully appealed and reassessed by SDAT.

E50C
State Department of Assessments and Taxation

Operating Budget Analysis

Program Description

The State Department of Assessments and Taxation (SDAT) is responsible for overseeing the real and personal property tax structure of the State. The department performs assessments on all real property throughout the State based on a three-year cycle in which one-third of all real property is reassessed each year. Assessments are completed by assessors working in each of the State's 23 counties and Baltimore City and are certified to the appropriate local taxing authority.

The department also administers several property tax credit programs:

- Homeowners' Property Tax Credit;
- Renters' Property Tax Credit;
- Homestead Tax Credit; and
- Enterprise Zone Tax Credit.

The homeowners' and renters' programs provide tax credits to homeowners and renters who meet certain qualifications based on their income. The homestead credit program provides a cap on the amount that a homeowner's property tax bill may increase following a new assessment. The only qualification for this program is that the property must be listed as the individual's principal residence. The enterprise zone program provides tax credits to businesses that start or expand their business in an area designated as an enterprise zone. Lastly, in prior years, the Base Realignment and Closure Revitalization and Incentive Zone Tax Credit Program was administered by the department but is no longer in effect and issued its last round of tax credit payments in fiscal 2020.

The department also conducts assessments of business personal property. Assessors determine the value of a business entity's taxable personal property, which is certified to the appropriate local taxing authority. Additional franchise and property taxes are also levied on public utility companies. Lastly, the department serves as the main filing location for all businesses that operate within the State, which must register and pay an annual filing fee in order to remain in good standing.

Performance Analysis: Managing for Results

1. Property Tax Assessment Accuracy Continues to Meet SDAT Goals

Property tax assessments can be a sensitive and sometimes disputed issue for property owners. However, a main goal of SDAT is to provide fair and accurate assessments. Accuracy is measured by the department as the degree to which properties are appraised at market value, as defined by professional standards published by the International Association of Assessing Officers (IAAO). There are three measures that are used, which are shown in **Exhibit 1**.

Exhibit 1
Accuracy of Property Tax Assessments
Fiscal 2016-2020

	<u>Goal</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Assessment-to-sales Ratio (Median)	90-110%	93.4%	95.0%	95.0%	95.0%	94.6%
Coefficient of Dispersion	≤15	9.00	8.55	10.00	10.00	8.65
Price-related Differential	.98-1.03	1.01	1.00	1.00	1.00	1.00

Source: State Department of Assessments and Taxation

First, the assessment-to-sales ratio (ASR) is a ratio of the assessed value to the sales price of the property. The closer that the ratio is to 100%, the closer that the assessments are to the sales prices. A ratio over 100% indicates that assessments were higher than actual market values, and a ratio under 100% indicates that assessments were lower than actual market values. The IAAO range and SDAT’s goal for acceptable performance for ASR is 90.0% to 110.0%. SDAT’s median ASR value was 94.6% in fiscal 2020, within the acceptable range.

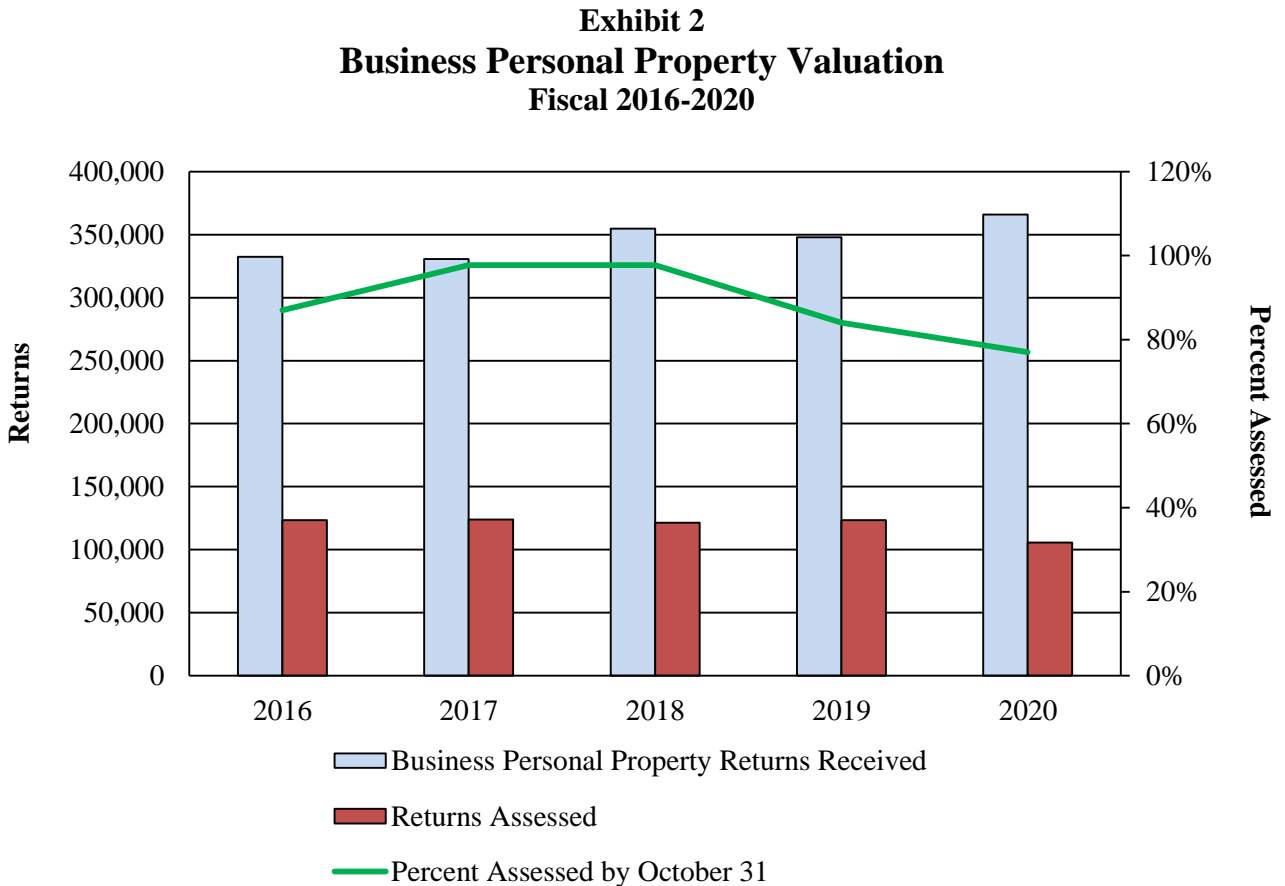
The other two measures of accuracy include the coefficient of dispersion (COD) and the price-related differential (PRD). The COD measures how close individual ASRs are to the median ASR for an area. A large COD indicates a wide range of assessment values in a particular area. A lower COD, however, indicates that individual ASRs are more closely distributed around the median ASR value. A COD value of equal to or less than 15.0 is considered acceptable. The COD for SDAT decreased to 8.65 in fiscal 2020, remaining within the acceptable range.

Third, PRD measures bias in ASR. Bias in assessments can occur when the amounts are systematically higher or lower than they should be, based on ASR. The ideal PRD is 1.0, which indicates an unbiased assessment. A PRD greater than 1.0 indicates that appraisals for high-dollar properties are underestimated; a PRD of less than 1.0 indicates appraisals for low-dollar properties are

underestimated. In fiscal 2020, PRD for SDAT remained at 1.0 for the fourth year in a row, meaning that assessments were unbiased.

2. Business Property Tax Returns Received and Assessed Remain Stable

In addition to real property assessments, the department also conducts assessments of business personal property. All business entities operating in Maryland are required to file an annual report and/or personal property tax returns with SDAT each year. Businesses that are delinquent in their legal filing requirements are no longer in “good standing” status which, if unresolved, may lead to forfeiture of the ability to do business in the State. Assessments of businesses determine the value of a business entity’s taxable personal property and are certified to local taxing authorities. **Exhibit 2** shows the number of business personal property filings received and the number of filings assessed each year as well as the percentage of filings assessed by October 31 each year.



Source: State Department of Assessments and Taxation

In fiscal 2020, the department received 348,018 filings from businesses and assessed 123,546. Approximately 77% of filings were assessed by October 31, a decrease from 84% the previous year. Due to the COVID-19 pandemic and to conform to other extensions of State tax filing deadlines, the 2020 filing deadline for annual reports and business personal property tax returns was extended 90 days, from April 15 to July 15, 2020.

3. Customer Service Satisfaction Rates Continue to Increase

Beginning in fiscal 2016, as part of the Executive Branch’s broader customer service initiative, the department began soliciting customers to respond to satisfaction surveys, which it has reported annually. **Exhibit 3** shows the results of these surveys. While the total sample size of survey respondents is relatively small, and the number of survey respondents decreased in fiscal 2020, customer service satisfaction rates have grown to 99.3%.

Exhibit 3
Customer Service Satisfaction Surveys
Fiscal 2016-2020

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Customer Experience Feedback Forms Received	497	748	1,367	2,173	1,195
Respondents That Were “Satisfied”	97.0%	93.8%	87.5%	94.1%	99.3%
Respondents That Were “Dissatisfied”	3.0%	6.2%	12.5%	5.9%	0.7%

Source: State Department of Assessments and Taxation

Fiscal 2020

Cost Containment

At its May 20, 2020 meeting, the Board of Public Works (BPW) approved a reduction of \$1 million in general funds for tax credit payments to align with projected spending.

Fiscal 2021

SDAT received \$4.6 million in additional special funds transferred by budget amendment to the Computerized Record Information System (CRIS) Major Information Technology Development

Project (MITDP) (formerly known as the Strategic Enterprise Application Network MITDP). These funds were previously budgeted for the project but unused in prior fiscal years.

Proposed Deficiency

There is a proposed fiscal 2021 special fund deficiency appropriation of \$1,161,026 for the agency's Charter Unit to fund National Information Consortium refund invoices for business personal property and charter fees collected on behalf of the agency.

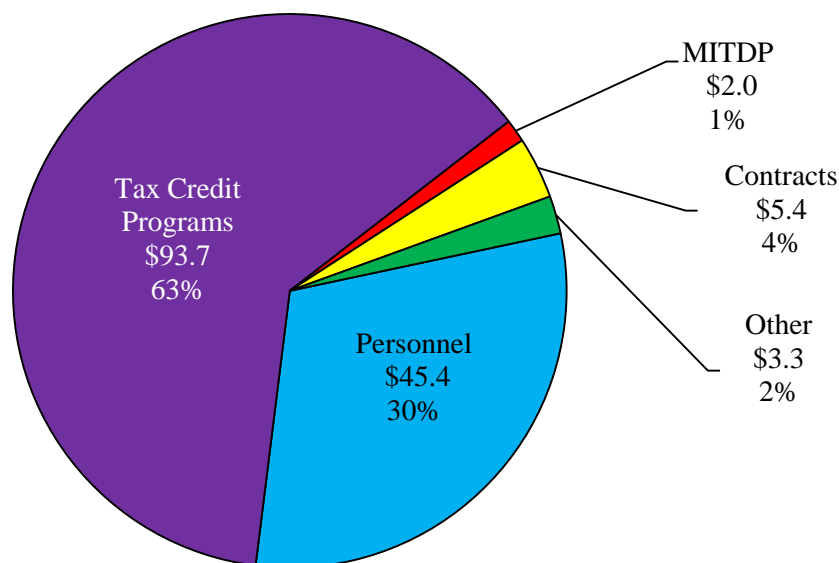
Cost Containment

At its July 1, 2020 meeting, BPW approved reductions totaling \$2,304,150 in general funds and \$856,472 in special funds, achieved through the elimination of 17 positions and the reduction of funding for miscellaneous operating expenses. Funding for the Enterprise Zone Tax Credit Program was also reduced in order to better align funding with projected spending for these tax credits.

Fiscal 2022 Overview of Agency Spending

As shown in **Exhibit 4**, the total adjusted fiscal 2022 allowance for SDAT is \$149.9 million. The largest share of the budget consists of tax credit payments for the three main tax credit programs that the department oversees. Homeowners', renters', and enterprise zone tax credits account for 63% of agency spending, or \$93.7 million. Outside of these programs, the majority of agency expenditures are allocated for personnel expenses, which make up 30%, or \$45.4 million of the budget. The remaining 7% of the budget consists of agency operating expenses, the largest share of which is contracts for a variety of services, including funding for the CRIS MITDP.

Exhibit 4
Overview of Agency Spending
Fiscal 2022 Allowance
(\$ in Millions)



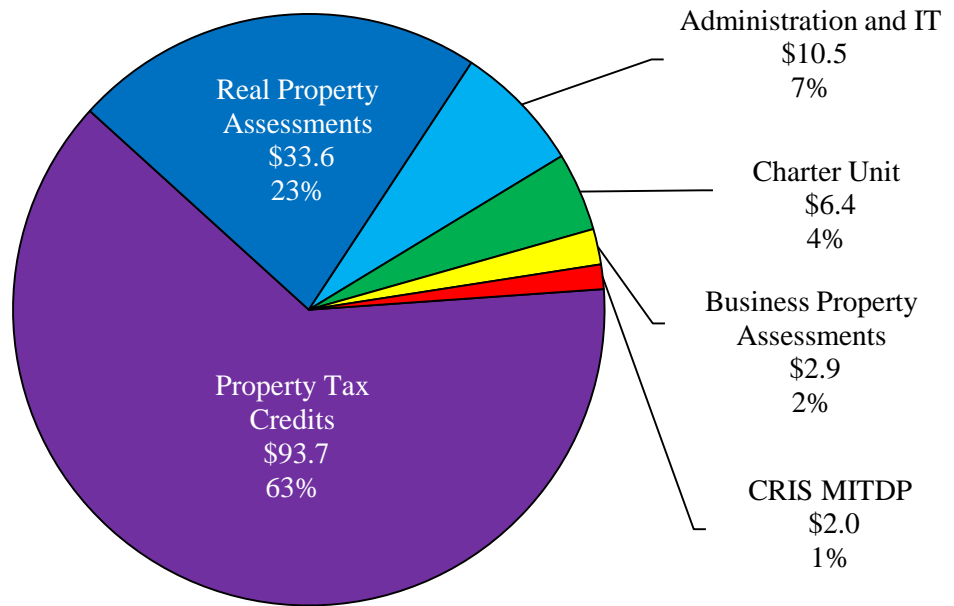
MITDP: Major Information Technology Development Project

Note: The fiscal 2022 allowance includes general salary increases and the annual salary review.

Source: Governor’s Proposed Fiscal 2022 Budget

While the majority of the agency’s funding is allocated to payments of State-funded property tax credits, there are several other units within the agency that administer these credits and conduct the agency’s operations. **Exhibit 5** shows the agency’s budget by function. Outside of funding for property tax credit programs, the largest agency function is real property assessments at 23% of the budget. The agency’s administration and information technology (IT) services account for an additional 7% of spending. The Charter Unit and business property valuation make up 4% and 2%, respectively. The CRIS MITDP is 1% of the budget.

Exhibit 5
Agency Spending by Function
Fiscal 2022 Allowance
(\$ in Millions)



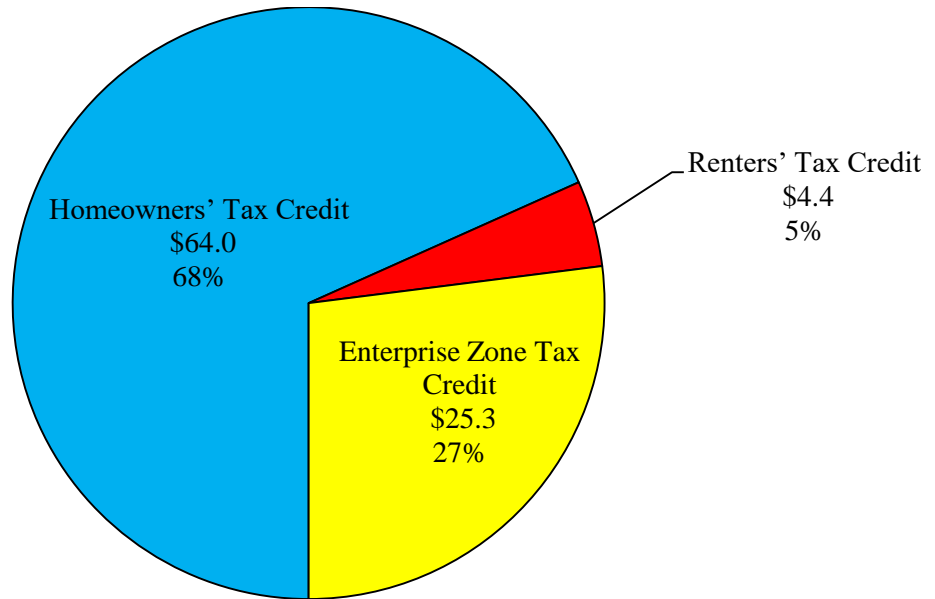
CRIS: Computerized Record Information System
IT: information technology
MITDP: Major Information Technology Development Project

Note: Excludes annual salary increases.

Source: Governor’s Proposed Fiscal 2022 Budget

Exhibit 6 shows the breakdown of funding for the agency’s primary tax credit programs. The Homeowners’ Tax Credit Program continues to be the largest tax credit program at \$64 million, or 68% of total tax credit funding. Enterprise zone tax credits total \$25.3 million, or 27%, and the Renters’ Tax Credit Program totals \$4.4 million, or 5% of the total. While each of these three tax credit programs saw funding growth in the previous fiscal year, funding for the homeowners’ and renters’ programs decline in fiscal 2022, and enterprise zone tax credit funding remains level funded.

Exhibit 6
Tax Credit Programs
Fiscal 2022 Allowance
(\$ in Millions)



Source: Governor's Proposed Fiscal 2022 Budget

Proposed Budget Change

As shown in **Exhibit 7**, the adjusted fiscal 2022 allowance decreases by \$9,739,000, or 6.1%, from the adjusted fiscal 2021 working appropriation. This decrease is primarily due to reductions in funding for the CRIS MITDP of \$4.2 million and \$2.6 million less funding for the homeowners' and renters' tax credit programs. Additional decreases to the fiscal 2022 allowance also factor in the \$1.2 million proposed deficiency appropriation for fiscal 2021 to the agency's Charter Unit and reductions to regular personnel expenses totaling \$744,000.

Exhibit 7
Proposed Budget
State Department of Assessments and Taxation
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2020 Actual	\$115,496	\$31,472	\$33	\$147,001
Fiscal 2021 Working Appropriation	123,243	36,420	0	159,663
Fiscal 2022 Allowance	<u>115,833</u>	<u>34,090</u>	<u>0</u>	<u>149,923</u>
Fiscal 2021-2022 Amount Change	-\$7,409	-\$2,330	\$0	-\$9,739
Fiscal 2021-2022 Percent Change	-6.0%	-6.4%		-6.1%

Where It Goes:

Personnel Expenses

Fiscal 2022 costs of January 1, 2021 2% general salary increase	\$373
Unemployment compensation	84
Regular earnings	58
Employee retirement contributions	-55
Other fringe benefit adjustments	-125
Employee and retiree health insurance	-237
Accrued leave payout	-379
Turnover adjustments	-463

Tax Credit Programs

Homeowners' Tax Credit Program	-2,495
Renters' Tax Credit Program.....	-132

Other Changes

Communications.....	-103
Office supplies and equipment	-133
Other.....	-258
Contracts for office space renovations	-525
Deficiency for Charter Unit.....	-1,161
CRIS Major Information Technology Development Project.....	-4,188

Total **-\$9,739**

CRIS: Computerized Record Information System

Note: Numbers may not sum to total due to rounding.

CRIS MITDP

In fiscal 2022, funding for the CRIS Project declines by \$4.2 million compared to the fiscal 2021 working appropriation. This decline primarily reflects an additional \$4.7 million increase to the fiscal 2021 working appropriation by budget amendment in order to reflect the transfer of funds that were previously budgeted for the project but unused. Additional spending in fiscal 2021 was needed for costs associated with replacing the Maryland Business Entity System (MBES). In comparison, it is anticipated that the project will require less spending in fiscal 2022. However, the current cost estimates and schedule for the project may change as the MBES implementation plan is updated. Further discussion of the CRIS Project can be found in the Issues section of this analysis.

Tax Credit Programs

Funding for the Homeowners' Tax Credit Program declines by \$2.5 million, or 3.8%, and funding for the Renters' Tax Credit Program declines by \$132,000, or 2.9%, in the fiscal 2022 allowance. The amount budgeted reflects the amount of tax credit payments awarded in the previous fiscal year. . Funding for the Enterprise Zone Tax Credit Program remains level funded at the fiscal 2021 level. Further discussion of SDAT tax credit programs can be found in the Issues section of this analysis.

Budget Reconciliation and Financing Act of 2021

The Budget Reconciliation and Financing Act of 2021 includes a provision altering the county cost sharing funding formula for SDAT programs. Under current law, local jurisdictions and the State split the costs equally for SDAT's real property valuation, business personal property valuation, and IT expenses. The proposed formula change requires the counties and Baltimore City to contribute 60% of SDAT expenses in fiscal 2022 with the State providing the remaining 40%. In subsequent fiscal years, the percentage of contributions by the counties and Baltimore City increases by 10% annually up to 90% in fiscal 2025 and subsequent fiscal years. The Governor's proposed fiscal 2022 budget includes a \$4 million general fund reduction, contingent upon the enactment of these provisions. In subsequent fiscal years, general fund expenses for SDAT operations see additional decreases each year as costs to local jurisdictions increase annually under the proposed funding formula. **Exhibit 8** provides detail on the additional costs to local jurisdictions under the proposed 60/40 split, compared to the current cost split.

Exhibit 8
Proposed Cost Sharing Totals
Fiscal 2022

<u>County</u>	<u>Current Costs</u>	<u>Proposed Costs</u>	<u>Increase</u>
Allegany	\$341,608	\$409,930	\$68,322
Anne Arundel	1,889,318	2,267,181	377,864
Baltimore City	1,982,290	2,378,748	396,458
Baltimore	2,568,993	3,082,792	513,799
Calvert	348,837	418,604	69,767
Caroline	129,327	155,192	25,865
Carroll	570,958	685,150	114,192
Cecil	397,050	476,460	79,410
Charles	555,738	666,885	111,148
Dorchester	179,594	215,513	35,919
Frederick	803,525	964,230	160,705
Garrett	247,004	296,405	49,401
Harford	858,821	1,030,586	171,764
Howard	964,541	1,157,449	192,908
Kent	104,522	125,426	20,904
Montgomery	2,922,801	3,507,362	584,560
Prince George's	2,513,442	3,016,130	502,688
Queen Anne's	204,623	245,548	40,925
St. Mary's	411,797	494,156	82,359
Somerset	144,273	173,127	28,855
Talbot	166,164	199,396	33,233
Washington	512,035	614,442	102,407
Wicomico	387,395	464,875	77,479
Worcester	535,440	642,528	107,088
Total	\$19,740,094	\$23,688,113	\$3,948,019

Source: Department of Legislative Services

Personnel Data

	<u>FY 20</u>	<u>FY 21</u>	<u>FY 22</u>	<u>FY 21-22</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	595.30	570.30	570.30	0.00
Contractual FTEs	<u>11.83</u>	<u>10.20</u>	<u>12.20</u>	<u>2.00</u>
Total Personnel	607.13	580.50	582.50	2.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	50.98	8.94%
Positions and Percentage Vacant as of 12/31/20	74.00	12.98%
Vacancies Above Turnover	23.02	

- A total of 17 positions were eliminated by BPW at its July 1, 2020 meeting for fiscal 2021. The positions abolished include 7 vacant assessor positions and 5 vacant office service clerk positions in the Real Property Valuation Division, 3 vacant positions in the Office of the Director, and 2 property tax credit administration positions.
- The fiscal 2022 allowance includes funding for an additional 2 contractual positions.

Assessor Vacancies

At the end of calendar 2020, SDAT had 74 vacancies across the agency, which is 23.02 over the budgeted turnover rate in fiscal 2022. The Real Property Valuation Division had 47 vacancies, or about 12% of positions within the division, with an average salary of \$55,294. Vacancies in the division have again increased during fiscal 2021, from 42 at the start of the fiscal year. In previous years, the agency has had issues with hiring and retention of real property staff, due to high rates of turnover in entry-level positions and noncompetitive employee compensation levels. The agency also notes that the COVID-19 pandemic has created additional challenges in hiring and that vacancies have been impacted by the statewide hiring freeze implemented in April 2020. Additionally, BPW abolished 7 vacant assessor positions as part of its cost containment efforts for fiscal 2021.

In December 2020, the agency released its report on real property valuation assessor vacancies, as required by the 2020 *Joint Chairmen's Report* (JCR). This report provided additional data on the agency's hiring activity in the previous year. The agency reports that, in total, there were 31 employees in the Real Property Division that exited State service, 16 employees that transferred to other State agencies, and 61 new hires for the division during fiscal 2020. Additionally, the agency reports that 63 employees were promoted from within. Hiring initiatives in early 2020 led to the filling of several positions, additional recruiters were hired, and a comparative analysis was conducted of the assessment staff salaries in surrounding jurisdictions. The report notes that the agency receives between 40 and

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350 applications for each assessor position that is advertised, with 95% of the applicants meeting the necessary minimum requirements for employment.

However, despite taking these actions, current agency personnel data indicates that the number of total vacancies in the Real Property Division stayed roughly the same from the beginning of fiscal 2020 to the year's end. Additionally, 10 of the current vacant positions in the division were vacated during fiscal 2021, indicating that although the agency has taken steps to hire additional staff to fill vacant positions, notable numbers of employees in the division continue to exit State service. The agency also notes that it is requesting exemptions for assessor positions from the statewide hiring freeze. A small annual salary review increase is budgeted in fiscal 2022 for the agency. The report notes that there are were 24 active vacancy postings as of December 2020.

SDAT should comment on its progress and challenges in hiring for the Real Property Valuation Division, including the notable number of employees in the division continuing to exit State service, persistent vacancy levels despite the large number of qualified applicants and additional hiring initiatives taken in the past year, impacts that the current statewide hiring freeze and the COVID-19 pandemic have had on turnover, any annual salary review adjustments made to position compensation, and any other issues with the hiring process. The Department of Legislative Services recommends that SDAT continue to update the committees on staffing in the Real Property Valuation Division.

Issues

1. SDAT Property Tax Credit Programs

Property Tax Credit Program Funding Declines

In fiscal 2020, SDAT distributed a total of \$88.4 million in tax credits, an 8.7% decrease from the fiscal 2019 total of \$96.8 million. The fiscal 2021 working appropriation shows an increase in funding for each category for total growth of 9%. However, in fiscal 2022, the allowance for tax credit payments again decreases for the homeowners' and renters' tax credits. BPW also reduced funding for tax credit payments as part of its cost containment actions by \$1 million in fiscal 2020 and \$911,827 in fiscal 2021 in order to align funding with lower projected spending. **Exhibit 9** shows program expenditure changes for SDAT's major tax credit programs since fiscal 2019. In the fiscal 2022 allowance, the Homeowners' Tax Credit Program declines by \$2.5 million, or 3.8%, and the Renters' Tax Credit Program declines by \$132,000, or 2.9%. Enterprise zone tax credits remain level funded at \$25.3 million.

Exhibit 9
Property Tax Program Expenditures
Fiscal 2019-2022
(\$ in Thousands)

	<u>Actual</u> <u>2019</u>	<u>Actual</u> <u>2020</u>	<u>Working</u> <u>Approp.</u> <u>2021</u>	<u>Allowance</u> <u>2022</u>	<u>\$ Change</u> <u>2021-2022</u>	<u>% Change</u> <u>2021-2022</u>
Homeowners' Tax Credit	\$65,461	\$60,046	\$66,495	\$64,000	-\$2,495	-3.8%
Renters' Tax Credit	4,383	4,427	4,532	4,400	-132	-2.9%
Enterprise Zone Tax Credit	24,790	23,902	25,308	25,308	0	0.0%
BRAC Zone Credit*	2,133	0	0	0	0	0.0%
Total	\$96,767	\$88,375	\$96,335	\$93,708	-\$2,627	-2.8%

BRAC: Base Realignment and Closure

*Program closed to new zones at the end of fiscal 2019; final payments made in fiscal 2020.

Source: State Department of Assessments and Taxation

Tax Credit Utilization and Outreach

Chapters 667 and 668 of 2016 required SDAT to compile a list of all residential properties valued at less than \$300,000 for which credits were not claimed and to work with the Comptroller to determine which homeowners might be eligible for the program. SDAT was then required to contact those homeowners with information about the tax credit. While Homeowners’ Tax Credit Program applicants increased by 8.4% from 2016 to 2018, the number of applicants have since declined by 9.3% and fell below fiscal 2016 levels in fiscal 2020. Applicants decreased by 8.0% from fiscal 2019 to 2020. To qualify for the credit, applicants must have a combined gross household income of less than \$60,000. The number of applicants for the Renters’ Tax Credit Program also declined in fiscal 2020, by 10.2%, after increasing each year from 2016 to 2019. However, the number of applicants eligible and the average size of the credits saw increases. **Exhibit 10** shows the utilization of both tax credit programs, as well as the average size of the credits that were awarded.

Exhibit 10 Homeowners’ and Renters’ Tax Credit Program Utilization Fiscal 2016-2020

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Change 2019-2020</u>
Homeowners’ Tax Credit						
Homeowners’ Applications	62,335	61,540	67,587	66,635	61,300	-8.0%
Homeowners’ Applications Eligible	46,751	45,964	46,682	45,822	43,566	-4.9%
Average Homeowners’ Credit	\$1,249	\$1,301	\$1,322	\$1,347	\$1,383	2.7%
Renters’ Tax Credit						
Renters’ Applications	10,606	11,720	12,013	12,199	10,951	-10.2%
Renters’ Applications Eligible	7,650	8,374	8,904	7,159	8,239	15.1%
Average Renters’ Credit	\$301	\$344	\$403	\$420	\$428	1.9%

Source: State Department of Assessments and Taxation

As part of the agency’s 2020 tax credit awareness campaign, SDAT reported mailing 133,000 postcards to low-income homeowners who may be eligible for a credit but have not submitted an application. The agency also mailed 6,238 postcards to renters who may be eligible for a tax credit. Additionally, the application deadline for 2020 was extended from October 1 to October 31 to allow for more time to file for these tax credits. **However, due to the declines in applicants for both tax credits in fiscal 2020 compared to prior year levels, SDAT should comment on the factors causing these decreases and any additional outreach activities that it plans to conduct to ensure eligible homeowners and renters are aware of the tax credits.**

Enterprise Zone Tax Credit Participation

The Enterprise Zone Tax Credit Program provides income tax credits for businesses located in a Maryland enterprise zone in order to incentivize job creation and investment in these areas. Businesses located in specific areas may also qualify for personal property tax credits on new investment and enhanced tax credits for creating new jobs. According to the Maryland Department of Commerce, there are currently 37 enterprise zones and 3 focus areas in 18 counties and Baltimore City. In total, the number of enterprise zone participants has fallen in recent years and decreased to 526 in fiscal 2020. However, there are currently 586 businesses participating in fiscal 2021. At the same time, the total amount of capital investments in the program has continued to increase each year since fiscal 2017, to \$3.8 billion in fiscal 2020. Participants and investments for the program are shown in **Exhibit 11**.

Exhibit 11
Enterprise Zone Tax Credit Investments and Participants
Fiscal 2016-2022 Est.
(\$ in Millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 Est.</u>	<u>2022 Est.</u>
Enterprise Zone Participants	792	640	577	580	526	586	563
Reimbursements to Local Governments (Tax Credits)	\$16.5	\$19.9	\$26.4	\$24.8	\$23.9	\$25.3	\$25.3
Total Capital Investment	\$2,976	\$1,312	\$3,165	\$3,686	\$3,843	\$3,950	\$4,000

Source: State Department of Assessments and Taxation

Out of the total participants in the program in fiscal 2021, the majority (300) were located in Baltimore City, which is projected to receive an estimated \$19.0 million out of the total \$25.3 million provided in reimbursements to local governments for tax credit payments. The total number of participants in the program is impacted by business growth, relocation, or closure. In previous years, several new large participants to the program, including Amazon, have made sizable investments in the State. When a large investment is made in a particular zone, this in turn benefits other participants by increasing the size of the tax credits paid to all participants in that zone. Although the total amount that SDAT reimbursed to local governments for tax credit payments declined in fiscal 2020, the amount budgeted for the program is higher in fiscal 2021 and remains funded at that level in fiscal 2022.

2. 2020 Property Tax Lien Sales

Pursuant to Tax-Property Article § 14-808 to 14-820, when a resident’s property taxes are delinquent, a lien is imposed on the property, and the tax collection authority is required by statute to sell the lien, with certain exceptions, at a tax sale (also called a tax lien sale or tax lien certificate sale). In most cases, statute requires the lien on a resident’s home to be sold at a public auction to the highest bidder willing to pay the total amount of all taxes, interest, penalties, and expenses related to the sale. However, unlike many other states, Maryland law establishes a redemption period of at least six months during which the homeowner can redeem their property by paying the required debt. This prevents the lien purchaser from filing a foreclosure motion on the property and clears the tax lien from the owner’s title.

Overall, while the process does offer the homeowner an opportunity to clear the tax lien from their home’s title, the tax sale process is complex with multiple requirements and due dates. In order to assist homeowners in navigating the tax sale process and assist in applying for property tax credits that could ease their tax burdens, Chapter 730 of 2019 created the Office of the State Tax Sale Ombudsman within SDAT. The office was formally launched on January 1, 2020. During fiscal 2020, the office received 713 phone calls and 109 emails requesting assistance regarding tax sales. In addition to assisting taxpayers, the office will also collect data on properties that are subject to tax sales on an annual basis and submit a report on an annual basis containing this data.

In its report submitted pursuant to the 2020 JCR, SDAT provided requested information on tax lien sales, including data on all owner-occupied property sold at tax sale in 2020, the number of sales occurring in each county, and the minimum threshold amount of unpaid taxes that may cause a tax sale. In some Maryland jurisdictions, a home can be placed in a tax sale for relatively minor amounts due in property taxes (and in some cases, for municipal liens such as water bills). **Exhibit 12** provides the minimum threshold amounts reported by SDAT for 19 counties and Baltimore City for unpaid taxes on a residential property that will cause a lien to be placed on a property and the county to put the property in tax sale. If a homeowner makes a partial payment that reduces the delinquent balance to below these thresholds during the redemption period, the lien will be removed from the tax sale list.

Exhibit 12
Delinquent Property Tax Thresholds

<u>County</u>	<u>Minimum Threshold Amount</u>
Baltimore City	\$750
Caroline	750
Carroll	750
Calvert	750
Cecil	750
Baltimore	500
Garrett	500
Prince George’s	500
Anne Arundel	250
Charles	250
Frederick	250
Harford	250
Howard	250
Kent	250
Montgomery	250
Somerset	250
Worcester	200
Wicomico	100
Talbot	50
Queen Anne’s	25

Source: State Department of Assessments and Taxation

SDAT also reported that while about half of Maryland counties canceled or indefinitely postponed their 2020 property tax lien sales due to the COVID-19 pandemic, 10 counties and Baltimore City proceeded with sales during the year, and a total of at least 2,555 property tax lien sales occurred statewide. **Exhibit 13** shows the number of tax sales held by county. Baltimore County held tax sales in October, but data was not available at the time of the report.

Exhibit 13
Tax Liens Sold on Owner-occupied Properties
Fiscal 2020

<u>County</u>	<u>Tax Liens Sold</u>
Baltimore City	1,015
Baltimore	*
Cecil	212
Dorchester	32
Frederick	278
Harford	118
Howard	108
Prince George’s	691
St. Mary’s	31
Somerset	21
Washington	49
Total	2,555

*Baltimore County delayed its tax sale until October 8, 2020, and held a supplemental tax sale on October 15, 2020. The data for Baltimore County is currently unavailable.

Source: State Department of Assessments and Taxation

Due to the relatively low thresholds of unpaid property taxes in many counties that may trigger a tax lien sale and due to several Maryland counties proceeding with tax sales in 2020 despite the ongoing COVID-19 pandemic, SDAT should continue to update the committees on the number of tax sales occurring during 2021 and any relevant outreach activities that the Tax Sale Ombudsman’s office conducted during the year to assist homeowners in navigating the process.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Maryland Jurisdiction Tax Lien Sale Information Report: The committees continue to be interested in tax lien sales occurring in local jurisdictions. Due to the fact that a home can be placed into a tax sale in some jurisdictions for relatively minor amounts due in delinquent property taxes and the fact that 10 counties and Baltimore City proceeded with scheduled tax lien sales in calendar 2020 despite the ongoing COVID-19 pandemic, the committees request an update from the State Department of Assessments and Taxation (SDAT) at the end of calendar 2021 including the following information:

- the total number of property tax lien sales by jurisdiction, including which jurisdictions canceled or postponed tax lien sales scheduled for calendar 2021;
- the neighborhood of each property tax lien sale;
- any changes to property tax delinquency thresholds or redemption periods that may have been implemented during the year; and
- a summary of outreach activities performed by the State Tax Sale Ombudsman during the year to assist homeowners in navigating the tax sale process and applying for any tax credits they may be eligible for.

Information Request	Author	Due Date
Property tax lien sale report	SDAT	December 31, 2021

2. Adopt the following narrative:

Real Property Valuation Assessor Vacancy Report: The committees continue to be concerned about staffing and retention for assessor positions in the Real Property Valuation Division. While the State Department of Assessments and Taxation (SDAT) has reported on this issue in previous years, the committees wish to remain briefed on this situation. Therefore, the committees request a report that includes an update on the agency’s hiring activities for the division during fiscal 2021, including the following information by employee class title and jurisdiction:

- the number of employees in the program that have left State service;
- the number of new hires;
- the number of positions posted;

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- the number of exemptions to the statewide hiring freeze that have been requested and granted for assessor positions;
- the number of qualified applications received in response to each posting;
- the length of time from the posting of each position to the acceptance of an offer of employment;
- details on adjustments to assessor salaries resulting from the annual salary review process;
- data on the comparison of agency salaries to salaries of assessors in neighboring jurisdictions; and
- an evaluation of exit interview data, including the main reasons cited by employees for leaving the agency.

Information Request	Author	Due Date
Real property valuation assessor vacancy report	SDAT	December 1, 2021

Updates

1. Real Property Valuation Equity and Transparency Study

The 2020 JCR required SDAT to submit a report that included information on the property tax assessment appeals process, data on the total number of appeals, successful appeals, and properties reassessed as well as the change in assessed value for these properties from fiscal 2016 to 2020. The report also asked for further information of SDAT’s efforts to ensure transparency and equity in the property assessment process and to conduct an equity evaluation comparing the properties that were successfully appealed and reassessed with income data.

The report did not contain the requested equity evaluation, due to the inability of SDAT to acquire income data for homeowners. In late 2020, a professor at the University of Maryland was identified by the budget committees to be commissioned to compile the necessary data on property appeals and homeowner income and complete an equity analysis based on this data. The goal of the study will be to determine if homeowner income level has any correlation to the properties that were successfully appealed and reassessed by SDAT. Although in its preliminary stages, the study will report any relevant findings to the committees upon its conclusion.

Appendix 1
2020 Joint Chairmen’s Report Responses from Agency

The 2020 *Joint Chairmen’s Report* (JCR) requested that the State Department of Assessments and Taxation (SDAT) prepare three reports. Electronic copies of the full JCR responses can be found on the Department of Legislative Services (DLS) Library website.

- ***Real Property Valuation Assessor Vacancy Report:*** A report was submitted providing information on the agency’s hiring activity and details on vacancies and staffing turnover in the Real Property Division. During fiscal 2020, the agency reports that 31 employees exited State service, 16 employees transferred to other State agencies, there were 61 new hires, 63 employees were promoted from within, and there were currently 24 active vacancy postings as of December 2020. There were 47 vacancies in the division at the end of calendar 2020. Further discussion of this report can be found in the Personnel section of this analysis.
- ***Maryland Jurisdiction Tax Lien Sale Information Report:*** A report was submitted providing information on the tax lien sale process in Maryland, including minimum property delinquency thresholds for a sale, the redemption period by county, and data on the number and locations of properties sold through a tax lien sale process during 2020. Further discussion of this data can be found in the Issues section of this analysis.
- ***Real Property Valuation Equity and Transparency Report:*** A report was submitted providing information on the property tax assessment appeals process in Maryland. Along with the report, data was submitted to DLS including the number of appeals, successful appeals, and reassessments, and the residential properties that were reassessed and saw a change in assessed value. This data is broken down by county and zip code for fiscal 2016 through 2020. The report also asked for information on SDAT’s efforts to ensure transparency and equity in the appeals process. However, this report did not include the requested equity evaluation comparing the properties that were reassessed to income level.

Appendix 2 Audit Findings

Audit Period for Last Audit:	November 12, 2015 – March 24, 2019
Issue Date:	October 2020
Number of Findings:	9
Number of Repeat Findings:	3
% of Repeat Findings:	30%
Rating: (if applicable)	n/a

- Finding 1:** The State Department of Assessments and Taxation (SDAT) did not have adequate procedures to ensure that all required physical property inspections were performed.
- Finding 2:** SDAT did not use available output reports to ensure that all real property assessment appeals recorded in the Assessment and Administration Valuation System were subject to independent review and approval as required.
- Finding 3:** **SDAT did not ensure that all required personal property returns and filing fees were received and that exemptions from filing a return and paying the fee were valid. In addition, SDAT did not pursue penalties for the untimely submission of returns in a timely manner.**
- Finding 4:** **SDAT did not perform timely audits of awarded homeowners' tax credits (HTC) or verify the propriety of redeemed HTCs and reimbursement requests from local jurisdictions. In addition, SDAT did not ensure that local jurisdictions recovered and remitted HTCs from homeowners that transferred their properties.**
- Finding 5:** SDAT did not ensure that HTCs were properly calculated. As a result, HTCs awarded to thousands of homeowners in certain jurisdictions were improperly reduced by at least \$4.4 million.
- Finding 6:** SDAT awarded paid administrative leave to a senior management employee over a five-month period at a cost of \$55,860 without any documentation. The administrative leave granted was also in excess of the 10-day limit on administrative leave allowed by State regulations.
- Finding 7:** SDAT did not have adequate controls to ensure that collections were properly accounted for and deposited timely.
- Finding 8:** SDAT did not perform an independent supervisory review of corporate charter transactions to ensure that the proper fees were charged and collected. Our review disclosed that expedited processing fees for 3,227 documents were not collected.
- Finding 9:** **SDAT's procedures for logging and monitoring critical database and mainframe security events were not sufficient.**

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Computerized Record Information System (CRIS)
Major Information Technology Project
State Department of Assessments and Taxation

New/Ongoing: Ongoing								
Start Date: Fiscal 2018					Est. Completion Date: Fiscal 2023			
Implementation Strategy: Waterfall								
(\$ in Millions)	Prior Year	2021	2022	2023	2024	2025	Remainder	Total
GF	\$0.56	\$0.96	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.52
SF	6.99	1.53	2.00	3.00	0.00	0.00	0.00	13.52
Total	\$7.55	\$2.49	\$2.00	\$3.00	\$0.00	\$0.00	\$0.00	\$15.04

- Project Summary:** This project will facilitate the migration and redevelopment of the department’s mainframe applications onto a cloud-based platform that will provide enhanced capabilities and a more user-centric experience. This project will streamline the application process for property tax credit programs, increase efficiency in processing applications by agency staff, and provide for a more efficient auditing process. For applicants, the project will allow users to track the status of their submissions, receive communications from the department regarding their applications, and make any edits that may be necessary.
- Need:** The current legacy information technology system is an outdated green-screen mainframe system. The remaining programmers at the State Department of Assessments and Taxation who know the system’s programming language have either retired or are nearing retirement. Additionally, many agency functions are still manual or paper-based, which is inefficient and increases the risk of data entry errors or data loss.
- Observations and Milestones:** Homeowners’ and renters’ tax credit applications are now available online for customers to input their data. However, these applications must still be processed through the mainframe system. The project plans to deliver additional form enhancements and enhanced integration by the third quarter of fiscal 2021. The project has also initiated planning for the redevelopment and migration of the Maryland Business Entity System (MBES) and is in the process of soliciting a cloud migration solution, with plans to award by the first quarter of fiscal 2022.
- Changes:** It is anticipated that the schedule, cost, and scope of the project are likely to change. Current cost estimates are preliminary in nature and scope, and the schedule may be updated as the MBES implementation plan is updated.
- Concerns:** There are some risks associated with the redevelopment of MBES due to the amount of data that needs to be migrated with precision. The vendor will need to provide additional training in order to provide agency employees with the knowledge and expertise necessary to support the new system.

Appendix 4
Object/Fund Difference Report
State Department of Assessments and Taxation

<u>Object/Fund</u>	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u> <u>Appropriation</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21 - FY 22</u> <u>Amount Change</u>	<u>Percent</u> <u>Change</u>
Positions					
01 Regular	595.30	570.30	570.30	0.00	0%
02 Contractual	19.83	10.20	12.20	2.00	19.6%
Total Positions	615.13	580.50	582.50	2.00	0.3%
Objects					
01 Salaries and Wages	\$ 44,211,474	\$ 45,421,286	\$ 44,268,099	-\$ 1,153,187	-2.5%
02 Technical and Spec. Fees	499,571	417,132	396,246	-20,886	-5.0%
03 Communication	1,035,153	922,747	819,359	-103,388	-11.2%
04 Travel	179,497	242,858	218,865	-23,993	-9.9%
06 Fuel and Utilities	24,870	29,000	29,000	0	0%
07 Motor Vehicles	81,128	88,722	85,722	-3,000	-3.4%
08 Contractual Services	10,371,185	12,381,380	7,426,531	-4,954,849	-40.0%
09 Supplies and Materials	152,349	169,516	129,513	-40,003	-23.6%
10 Equipment – Replacement	28,404	177,896	86,896	-91,000	-51.2%
11 Equipment – Additional	94,667	5,208	3,000	-2,208	-42.4%
12 Grants, Subsidies, and Contributions	88,378,659	96,334,757	93,707,757	-2,627,000	-2.7%
13 Fixed Charges	1,944,204	1,940,842	1,972,603	31,761	1.6%
Total Objects	\$ 147,001,161	\$ 158,131,344	\$ 149,143,591	-\$ 8,987,753	-5.7%
Funds					
01 General Fund	\$ 115,496,497	\$ 123,060,230	\$ 119,396,074	-\$ 3,664,156	-3.0%
03 Special Fund	31,472,063	35,071,114	29,747,517	-5,323,597	-15.2%
09 Reimbursable Fund	32,601	0	0	0	0.0%
Total Funds	\$ 147,001,161	\$ 158,131,344	\$ 149,143,591	-\$ 8,987,753	-5.7%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 5
Fiscal Summary
State Department of Assessments and Taxation

<u>Program/Unit</u>	<u>FY 20 Actual</u>	<u>FY 21 Wrk Approp</u>	<u>FY 22 Allowance</u>	<u>Change</u>	<u>FY 21 - FY 22 % Change</u>
01 Office of the Director	\$ 3,948,899	\$ 3,885,356	\$ 4,122,697	\$ 237,341	6.1%
02 Real Property Valuation	35,311,376	34,889,233	33,604,186	-1,285,047	-3.7%
04 Office of Information Technology	3,616,465	3,892,905	2,943,786	-949,119	-24.4%
05 Business Property Valuation	3,110,302	3,306,365	2,932,216	-374,149	-11.3%
06 Tax Credit Payments	88,375,027	96,334,757	93,707,757	-2,627,000	-2.7%
08 Property Tax Credit Programs	2,717,973	2,964,338	3,445,405	481,067	16.2%
09 Major Information Technology Development	3,156,192	6,188,109	2,000,000	-4,188,109	-67.7%
10 Charter Unit	6,764,927	6,670,281	6,387,544	-282,737	-4.2%
Total Expenditures	\$ 147,001,161	\$ 158,131,344	\$ 149,143,591	-\$ 8,987,753	-5.7%
General Fund	\$ 115,496,497	\$ 123,060,230	\$ 119,396,074	-\$ 3,664,156	-3.0%
Special Fund	31,472,063	35,071,114	29,747,517	-5,323,597	-15.2%
Total Appropriations	\$ 146,968,560	\$ 158,131,344	\$ 149,143,591	-\$ 8,987,753	-5.7%
Reimbursable Fund	\$ 32,601	\$ 0	\$ 0	\$ 0	0.0%
Total Funds	\$ 147,001,161	\$ 158,131,344	\$ 149,143,591	-\$ 8,987,753	-5.7%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.