

**E50C**  
**Department of Assessments and Taxation**

***Operating Budget Data***

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	(\$ in Thousands)				
	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 03 – 04</u>	<u>FY 03 – 04</u>
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
General Funds	\$93,052	\$96,414	\$90,083	-\$6,332	-6.6%
FY 2003 Cost Containment	0	-7,900	0	7,900	-100.0%
Contingent & Back of Bill Reductions	0	-29	-10,260	-10,231	35396.0%
<b>Adjusted General Funds</b>	<b>\$93,052</b>	<b>\$88,485</b>	<b>\$79,823</b>	<b>-\$8,662</b>	<b>-9.8%</b>
Special Funds	2,743	2,740	2,769	28	1.0%
Contingent & Back of Bill Reductions	0	-1	-15	-13	951.9%
<b>Adjusted Special Funds</b>	<b>\$2,743</b>	<b>\$2,739</b>	<b>\$2,754</b>	<b>\$15</b>	<b>0.6%</b>
<b>Adjusted Grand Total</b>	<b>\$95,795</b>	<b>\$91,224</b>	<b>\$82,577</b>	<b>-\$8,647</b>	<b>-9.5%</b>

- The fiscal 2004 allowance provides a \$747,000 net increase for the tax credit programs.
- The fiscal 2004 allowance deletes \$744,000 associated with 27.5 PINs that were abolished or transferred in fiscal 2003.
- \$10 million of general fund savings are assumed in the fiscal 2004 allowance contingent upon legislation requiring local governments to cover a portion of the costs associated with property assessments.

***Personnel Data***

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	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>Change</u>
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	
Regular Positions	763.00	735.50	725.50	-10.00
Contractual FTEs	3.00	2.50	3.00	0.50
<b>Total Personnel</b>	<b>766.00</b>	<b>738.00</b>	<b>728.50</b>	<b>-9.50</b>

***Vacancy Data: Regular Positions***

Budgeted Turnover: FY 04	28.66	3.95%
Positions Vacant as of 12/31/02	40.40	5.49%

- The fiscal 2004 allowance deletes 10 PIN: 8 from the Real Property Valuation program, 1 from the Business Property Valuation program, and 1 from the Property Tax Credit program

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

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## ***Analysis in Brief***

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### **Major Trends**

**Tax Credit Program:** Utilization rates for the renters' and homeowners' tax credit programs continue to decline.

**Charter Unit Is a Valuable Government Service:** The Charter Unit is the State's central repository for all records and filings for business formation. Providing efficient service is vital to the State economy.

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce miscellaneous communication.	\$ 9,649
2. Reduce funds for building repair and maintenance.	67,000
3. Reduce funds for office equipment.	68,896
4. Reduce funds for systems software.	21,867
<b>Total Reductions</b>	<b>\$ 167,412</b>

**E50C**  
**Department of Assessments and Taxation**

***Operating Budget Analysis***

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**Program Description**

The State Department of Assessments and Taxation (SDAT) supervises the assessment of all property in the State. The department performs assessments on one-third of all real property and all personal property in the State every year and certifies to the local taxing authorities the assessment of every piece of property. The department also administers three tax credit programs: the Homeowners' Tax Credit Program, the Renters' Tax Credit Program, and the Urban Enterprise Zone Tax Credit Program. The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The enterprise zone program reimburses local governments for property tax credits given to businesses, which are located in or expand into enterprise zones. The department collects financial institution and public service company franchise taxes and serves as the filing place for businesses operating in the State. The department registers companies, corporations, and partnerships in Maryland and generates certificates and certified documents. The various forms that businesses must file with the department are available to the public for inspection.

The goals of the department are as follows:

- provide a consistently accurate property valuation system;
- run efficient and effective programs for property tax relief and business services; and
- operate convenient and professional facilities.

**Performance Analysis: Managing for Results**

**Consistent and Accurate Property Valuation**

The department has developed a series of sophisticated measures to evaluate the consistency and accuracy of its property valuation system. These measures involve calculating ratios based on the assessment value and the sales price of property and dispersion coefficients. The measures provided show that the department is doing well in maintaining a consistent and accurate assessment process. However, it is noted, that 40% of all appealed assessments are changed by the Property Tax Assessment and Appeals Board and a recent press article (*Baltimore Sun*, January 19, 2003) highlighted several assessments that had errors in vital property information. **The department should be prepared to comment on its property data verification methods.**

## Property Tax Relief

The homeowners' and renters' tax credit programs are reimbursements from the department to the local jurisdictions for tax credits against State and local property taxes due. The eligibility for, and size of, a tax credit is based on a formula that includes taxes paid and the taxpayer's gross income. The enterprise zone tax credit is for businesses that, in a designated enterprise zone, hire for newly created full-time jobs. There is a one-time credit for each new employee and a three-year credit for hiring an employee who is economically disadvantaged (as determined by the Maryland Job Service). **Exhibit 1** presents some recent data on these programs.

### Exhibit 1

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<b>Tax Credit Program Activity</b>					
<u>Measure</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Est.</u>
<i>Homeowners:</i>					
# of participants	64,600	61,889	58,712	57,500	56,700
\$ in millions of credits	\$49.095	\$46.727	\$44.057	\$39.062	\$39.000
Average credit	\$760	\$755	\$750	\$678	\$688
<i>Renters:</i>					
# of participants	13,461	14,331	12,843	12,700	12,500
\$ in millions of credits	\$4.041	\$3.912	\$3.073	\$3.200	\$3.200
Average credit	\$300	\$273	\$239	\$252	\$256
<i>Enterprise Zones:</i>					
# of participants	n/a	n/a	394	498	531
\$ in millions of credits	\$1.912	\$2.290	\$3.008	\$4.132	\$4.941

Source: Governor's Budget Books

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The trends show that the utilization rates of the homeowners' and renters' tax credit program has been declining while use of the enterprise zone credit is growing. **The department should be prepared to comment on these trends and, to the extent possible, address the underlying causes.**

## Business Services

The Charter Unit provides document services to the business community, including documents pertaining to business formation and commercial transactions. The Charter Unit provides two kinds of document service, regular and expedited. **Exhibit 2** details the unit's recent and expected performance measures.

**Exhibit 2**

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**Service Measures for the Charter Unit**

<u>Measure</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004 Est.</u>
<i>Regular Service</i>				
# of documents processed	86,784	89,265	90,000	90,000
Average # of days to process	8.9	7.9	7.5	7.5
<i>Expedited Service</i>				
# of documents processed	74,483	83,623	85,000	86,000
Average # of hours to process	25.2	23.7	23.5	23.0

Source: Governor's Budget Books

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While SDAT has provided consistent and timely business document services, the utilization rate of the expedited service has leveled and is not expected to increase much. **The department should be prepared to explain if it believes the expedited service has reached its maximum usage rate.**

**Fiscal 2003 Actions**

**Impact of Cost Containment**

The department took \$7.9 million in fiscal 2003 cost containment actions. Most of the department's cost containment (\$7.2 million) was taken as a reduction in the tax credit programs which appear to have a surplus. The department distributed another \$700,000 across various operating expenses.

Fiscal 2003 cost containment also reflects the reversion of appropriations to support free transit ridership for State employees, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act of 2003. This amounts to about \$30,000 for the department.

**The department should be prepared to comment on how these actions will affect operations.**

**Governor's Proposed Budget**

Exhibit 3 details the Governor's allowance. The fiscal 2004 allowance is \$8.6 million (9.48%) below the fiscal 2003 working appropriation.

**Exhibit 3**

**Governor's Proposed Budget  
Department of Assessments and Taxation  
(\$ in Thousands)**

	<b>FY 02 <u>Actual</u></b>	<b>FY 03 <u>Approp.</u></b>	<b>FY 04 <u>Allowance</u></b>	<b>FY 03 - 04 <u>Change</u></b>	<b>FY 03 - 04 <u>% Change</u></b>
General Funds	\$93,052	\$96,414	\$90,083	-\$6,332	-6.6%
FY 2003 Cost Containment	0	-7,900	0	7,900	-100.0%
Contingent & Back of Bill Reductions	0	-29	-10,260	-10,231	35396.0%
<b>Adjusted General Funds</b>	<b>\$93,052</b>	<b>\$88,485</b>	<b>\$79,823</b>	<b>-\$8,662</b>	<b>-9.8%</b>
Special Funds	2,743	2,740	2,769	28	1.0%
Contingent & Back of Bill Reductions	0	-1	-15	-13	951.9%
<b>Adjusted Special Funds</b>	<b>\$2,743</b>	<b>\$2,739</b>	<b>\$2,754</b>	<b>\$15</b>	<b>0.6%</b>
<b>Adjusted Grand Total</b>	<b>\$95,795</b>	<b>\$91,224</b>	<b>\$82,577</b>	<b>-\$8,647</b>	<b>-9.5%</b>

**Where It Goes:**

**Personnel Expenses**

Employee and retiree health insurance .....	\$1,040
Turnover adjustments .....	638
Deletion of funding related to PINs abolished in fiscal 2003 .....	-744
Increments and other compensation .....	-369
10 abolished positions - 8 in real property valuation, 1 in business property valuation, and 1 in property tax credit program.....	-362
Deferred compensation.....	-214
Workers' compensation premium assessment .....	-87
Reduction in social security payments .....	-64
Miscellaneous adjustments.....	96

**Other Changes**

**Office of the Director**

Increase in the Department of Budget and Management's capital lease allocation .....	73
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*E50C - Department of Assessments and Taxation*

**Where It Goes:**

***Real Property Valuation***

Increase in rent for 24 local assessment offices: largest increases in Prince George’s (\$27,000), Calvert (\$23,000), and Frederick (\$23,000) counties .....	123
Miscellaneous repairs to offices in Garrett, Carroll, and Prince George’s counties.....	93
Counties to fund portion of Real Property Valuation Division’s costs – contingent upon legislation.....	-10,000

***Office of Information Technology***

Software maintenance – applications support for Novell, FoxPro, Access, network, and web site.....	45
Decrease of Annapolis Data Center charges .....	-226

***Tax Credit Program***

Homeowners’ tax credit .....	-62
Urban enterprise zone tax credit .....	809

***Charter Unit***

Office equipment .....	22
Increase in postage mainly due to increase in postage rates for first class mail.....	50

***Other Changes***

Miscellaneous changes .....	492
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<b>Total</b>	<b>-\$8,647</b>
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Note: Numbers may not sum to total due to rounding.

**Impact of Cost Containment**

The fiscal 2004 budget assumes a \$10 million one-time general fund savings related to costs incurred by the department’s Real Property Valuation Division. Contingent on the enactment of legislation, the State’s 23 counties and Baltimore City would pay \$10 million, approximately one-third of the property assessment costs in fiscal 2004. Each jurisdiction’s share would be proportionate to the county’s assessable base. Instead of the county making a direct payment to the State, it is proposed that each county’s share would be deducted from the amount of money the county would receive through the homeowners’ tax credit program. The only exceptions would be Talbot and Worcester counties since their assessment costs are projected to exceed the amount of funding provided under the homeowners’ tax credit program. These two counties may be asked to make a payment to the State for the difference. **Exhibit 4** presents the details of the affect of the proposed transfer for each county. **Appendix 4** details the county-by-county net State cost after the transfer.

Other fiscal 2004 cost containment reflects the elimination of funding for a \$600 deferred compensation match for State employees contingent upon enactment or legislation.

**Exhibit 4**

**Property Assessment Allocation**  
 (\$ in Thousands)

<u>County</u>	<u>Assessable Base FY 02</u>	<u>Assessable Base Proportion</u>	<u>Property Assessment Allocation</u>	<u>Homeowners' Tax Credit Program Allocation - FY 03</u>	<u>Adjusted Homeowners' Tax Credit Program Allocation</u>
Allegany	\$2,620	0.8%	\$77	\$556	\$479
Anne Arundel	35,719	10.5%	1,054	2,804	1,750
Baltimore City	19,136	5.6%	565	12,527	11,963
Baltimore	44,462	13.1%	1,312	6,198	4,885
Calvert	5,995	1.8%	177	389	212
Caroline	1,315	0.4%	39	216	177
Carroll	9,613	2.8%	284	1,382	1,099
Cecil	4,898	1.4%	145	532	387
Charles	8,197	2.4%	242	456	214
Dorchester	1,562	0.5%	46	233	187
Frederick	13,153	3.9%	388	1,750	1,362
Garrett	1,983	0.6%	59	213	155
Harford	12,854	3.8%	379	1,422	1,042
Howard	21,635	6.4%	639	900	262
Kent	1,385	0.4%	41	119	79
Montgomery	81,979	24.2%	2,420	2,790	370
Prince George's	41,782	12.3%	1,233	4,374	3,141
Queen Anne's	3,325	1.0%	98	283	185
St. Mary's	5,223	1.5%	154	462	308
Somerset	731	0.2%	22	120	98
Talbot*	3,740	1.1%	110	78	-33
Washington	6,856	2.0%	202	1,123	921
Wicomico	3,949	1.2%	117	388	271
Worcester*	6,671	2.0%	197	185	-12
<b>Total</b>	<b>\$338,781</b>	<b>100.0%</b>	<b>\$10,000</b>	<b>\$39,502</b>	<b>\$29,502</b>

Note: The adjusted homeowners' tax credit program allocation is the amount that the county would receive after the State deducts the cost for the property assessment. The property assessment allocation is each county's portion of the property assessment cost.

\* Talbot and Worcester counties' share of the property assessment cost exceeds the amount of funding provided under the homeowners' tax credit program. These counties would have to make a payment to the State to cover the difference

Source: Department of Legislative Services

## *E50C - Department of Assessments and Taxation*

### **Personnel**

The fiscal 2004 allowance provides a net \$66,000 decrease below the fiscal 2003 working appropriation for personnel. The largest change in the personnel allowance is the \$1.0 million increase in health insurance costs, which is offset by several reductions in other personnel expenses.

There is a \$362,000 reduction in general funds related to the deletion of 10 PINs. Eight of these positions are in the Real Property Valuation program, 1 is in the Business Property Valuation program and 1 is in the Property Tax Credit program. There is also a \$744,000 reduction related to the deletion of the funds associated with 27.5 PINs that were abolished in fiscal 2003. **SDAT should be prepared to comment on the affect of these personnel changes to its operations.**

### **Tax Credit Programs**

The fiscal 2004 allowance provides a net increase of \$747,000 for the three tax credit programs; however, the entire increase is for the urban enterprise zone program. The fiscal 2004 allowance for the enterprise zone program increases by \$809,000 while the allowance for the homeowners' program decreases by \$62,000 and the renters' program allowance is unchanged from the fiscal 2003 working appropriation. As discussed previously, the homeowners' and renters' tax credit programs have experienced decreasing utilization rates and only the enterprise zone credit has experienced any growth. Over the five year period ending in fiscal 2002 SDAT has reverted an average of \$1.4 million from the tax credit programs, including a \$3.3 million reversion in fiscal 2002. Therefore, these funding levels are not expected to adversely affect departmental operations, but **SDAT should be prepared to comment on the affect of the fiscal 2004 tax credit allowances.**

## ***Recommended Actions***

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	<b><u>Amount Reduction</u></b>	
1. Reduce miscellaneous communication. The fiscal 2004 allowance provides a 61% increase over the fiscal 2003 working appropriation. This reduction allows 2.2% growth.	\$ 9,649	GF
2. Reduce funds for building repair and maintenance. The fiscal 2004 allowance is a \$135,000 (237%) increase over the fiscal 2003 working appropriation and \$42,000 greater than the fiscal 2002 actual expenditures. This reduction still allows a 62% increase over the fiscal 2003 working appropriation.	67,000	GF
3. Reduce funds for office equipment. In fiscal 2003, the State Department of Assessments and Taxation was able to provide \$159,900 out of this expenditure item for cost containment purposes. This recommendation allows a \$30,000 increase over the fiscal 2003 working appropriation.	68,896	GF
4. Reduce funds for web site software maintenance allowance. The fiscal 2004 allowance is 11% above the two-year average and is based on a projected \$28,500 increase for web services. This reduction still allows a 2.2% increase over fiscal 2003 working appropriation and equals the two-year average.	21,867	GF
<b>Total General Fund Reductions</b>	<b>\$ 167,412</b>	

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Department of Assessments and Taxation (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2002</b>					
Legislative Appropriation	\$96,946	\$2,063	\$0	\$0	\$99,009
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-605	684	0	0	79
Reversions and Cancellations	-3,290	-5	0	0	-3,295
<b>Actual Expenditures</b>	<b>\$93,052</b>	<b>\$2,743</b>	<b>\$0</b>	<b>\$0</b>	<b>\$95,795</b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$96,414	\$2,398	\$0	\$0	\$98,812
Budget Amendments	0	342	0	0	342
Cost Containment	-7,929	-1	0	0	-7,930
<b>Working Appropriation</b>	<b>\$88,485</b>	<b>\$2,739</b>	<b>\$0</b>	<b>\$0</b>	<b>\$91,224</b>

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

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E50C - Department of Assessments and Taxation

Appendix 2

Object/Fund Difference Report  
Department of Assessments and Taxation

Object/Fund	FY 02	FY 03	FY 04	FY 03 - FY 04	Percent Change
	Actual	Working Appropriation	Allowance	Amount Change	
<b>Positions</b>					
01 Regular	763.00	735.50	725.50	-10.00	-1.4%
02 Contractual	3.00	2.50	3.00	0.50	20.0%
<b>Total Positions</b>	<b>766.00</b>	<b>738.00</b>	<b>728.50</b>	<b>-9.50</b>	<b>-1.3%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 37,559,235	\$ 37,779,096	\$ 37,956,800	\$ 177,704	0.5%
02 Technical & Spec Fees	97,643	63,668	88,152	24,484	38.5%
03 Communication	1,134,727	1,211,873	1,321,588	109,715	9.1%
04 Travel	343,299	371,158	360,968	-10,190	-2.7%
06 Fuel & Utilities	16,955	26,517	26,258	-259	-1.0%
07 Motor Vehicles	163,462	163,210	149,023	-14,187	-8.7%
08 Contractual Services	3,846,287	3,514,095	3,424,090	-90,005	-2.6%
09 Supplies & Materials	373,181	351,714	324,746	-26,968	-7.7%
10 Equip - Replacement	389,572	201,039	97,386	-103,653	-51.6%
11 Equip - Additional	73,659	58,059	0	-58,059	-100.0%
12 Grants, Subsidies, Contr	50,138,066	53,593,622	47,141,000	-6,452,622	-12.0%
13 Fixed Charges	1,658,613	1,820,575	1,961,491	140,916	7.7%
<b>Total Objects</b>	<b>\$ 95,794,699</b>	<b>\$ 99,154,626</b>	<b>\$ 92,851,502</b>	<b>-\$ 6,303,124</b>	<b>-6.4%</b>
<b>Funds</b>					
01 General Fund	\$ 93,051,699	\$ 96,414,169	\$ 90,082,602	-\$ 6,331,567	-6.6%
03 Special Fund	2,743,000	2,740,457	2,768,900	28,443	1.0%
<b>Total Funds</b>	<b>\$ 95,794,699</b>	<b>\$ 99,154,626</b>	<b>\$ 92,851,502</b>	<b>-\$ 6,303,124</b>	<b>-6.4%</b>

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.



Fiscal Summary						
Department of Assessments and Taxation						
<u>Unit/Program</u>	<u>FY 02 Actual</u>	<u>FY 03 Legislative Appropriation</u>	<u>FY 03 Working Appropriation</u>	<u>FY 02 – FY 03 % Change</u>	<u>FY 04 Allowance</u>	<u>FY 03 – FY 04 % Change</u>
00 State Department of Assessments and Taxation	\$ 95,794,699	\$ 98,812,626	\$ 99,154,626	3.5%	\$ 92,851,502	-6.4%
<b>Total Expenditures</b>	<b>\$ 95,794,699</b>	<b>\$ 98,812,626</b>	<b>\$ 99,154,626</b>	<b>3.5%</b>	<b>\$ 92,851,502</b>	<b>-6.4%</b>
General Fund	\$ 93,051,699	\$ 96,414,169	\$ 96,414,169	3.6%	\$ 90,082,602	-6.6%
Special Fund	2,743,000	2,398,457	2,740,457	-0.1%	2,768,900	1.0%
<b>Total Appropriations</b>	<b>\$ 95,794,699</b>	<b>\$ 98,812,626</b>	<b>\$ 99,154,626</b>	<b>3.5%</b>	<b>\$ 92,851,502</b>	<b>-6.4%</b>

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

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**State Cost of Real Property Valuation by County**

<u>Jurisdiction</u>	<u>FY 02</u>	<u>FY 03</u>	<u>Estimated FY 04</u>	<u>County Contrib. under BREFA</u>	<u>Net State Cost</u>
Allegany	\$817,455	\$797,648	\$846,102	\$77,328	\$768,774
Anne Arundel	2,184,824	2,264,751	2,298,520	1,054,330	1,244,190
Baltimore City	2,250,160	2,316,395	2,290,418	564,840	1,725,578
Baltimore County	3,489,395	3,479,065	3,679,038	1,312,406	2,366,632
Calvert	578,803	619,588	613,656	176,951	436,705
Caroline	377,680	345,553	418,225	38,820	379,405
Carroll	960,912	968,764	1,040,903	286,760	754,143
Cecil	538,472	564,320	566,685	144,586	422,099
Charles	927,424	789,133	854,101	241,950	612,151
Dorchester	485,698	421,077	460,738	46,104	414,634
Frederick	1,144,458	1,153,013	1,225,943	388,149	837,794
Garrett	507,528	493,790	547,065	58,536	488,529
Harford	1,076,399	1,039,935	1,111,799	379,418	732,381
Howard	1,111,760	1,167,784	1,119,286	638,601	480,685
Kent	366,222	348,833	429,082	40,879	388,203
Montgomery	3,851,342	4,080,802	3,926,224	2,419,823	1,506,401
Prince George's	3,277,023	3,383,165	3,473,999	1,233,298	2,240,701
Queen Anne's	457,696	512,436	476,730	98,138	378,592
St. Mary's	600,645	724,248	707,058	154,180	552,878
Somerset	472,629	446,536	472,570	21,574	450,996
Talbot	539,445	532,747	570,684	110,398	460,286
Washington	995,973	1,021,924	1,068,534	202,367	866,167
Wicomico	803,240	778,235	818,119	116,555	701,564
Worcester	839,408	896,742	920,366	196,910	723,456
<b>Totals</b>	<b>\$28,654,591</b>	<b>\$29,146,484</b>	<b>\$29,935,845</b>	<b>\$10,002,901</b>	<b>\$19,932,944</b>

Source: Department of Legislative Services