

E50C
State Department of Assessments and Taxation

Operating Budget Analysis

Department's Response:

The analysis by the Department of Legislative Services concurs with the Governor's allowance for the Department of Assessments and Taxation.

The analysis requests the Department to address recent press articles highlighting errors in property valuation and tax credit [Homestead] calculations.

It is important to note at the outset that the press articles highlighted only **one** property in Baltimore City where there was an error in property valuation of any property. That property involved major renovations and the consolidation of three townhouse properties into one property. This property was brought to the attention of the reporters by an anonymous letter and not as a result of the computer analysis of Homestead accounts performed by the reporters for properties in Baltimore City. The news story also did not report that a City assessor had been out twice to physically inspect this particular property, but was unable to make the new assessment at that time because the improvements were not "substantially complete" under Maryland Assessment law.

Nonetheless, one of the newspaper's editors wrote an editorial suggesting the need for a study to see if there is any problem in property valuations in Baltimore City. The two reporters who wrote the investigative articles have subsequently indicated to the Department that their stories had nothing to do with examining the quality of assessments made by the Department in Baltimore City. This action by the editor illustrates how many people do not understand what the Department does in making mass appraisal assessments.

The area where the newspaper reporters did run computerized reports on a number of properties involved the receipt of Homestead Tax Credits and the calculation of those credits. The first report involved approximately 500 abandoned properties receiving Homestead Credit but the report used data in the possession of the City Housing Department and not the Department's Baltimore City Assessments Office. The fact that this data was only in the possession of the City Housing Department demonstrates how our Department needs a "triggering" event (a property transfer, a registration, an application, or a

complaint) to remove Homestead Credits. Another specialized report on the largest Homestead credits was run by the reporters that showed that there were 5 properties with Homestead Credits where an assessor had not keyed in an adjustment for new improvements to the assessable base so that the homeowner received too large a Homestead Credit. However, all 5 of the property owners received a correct total full market assessment on the property itself.

Note also that those owners highlighted in the newspaper stories that are receiving the largest Homestead credits in Baltimore City, are entitled to those credits despite their magnitude. The magnitude of those credits, as well as the current volume and the size of the average Homestead credit, is the result of the substantial increases in property assessments that occurred with the rise in property values between late 2005 and mid 2008. As assessments increase, so do the volume and magnitude of the Homestead credits. The average annual increase in assessments prior to 2005 was 3%. The average annual increase in assessments between 2005 and 2008 exceeded 20%

The entire issue of improperly received Homestead Credits, whether 15 year or 5 years ago, will be put to an end with the absolute filing deadline of December 31, 2012 for submitting the one-time Homestead application. Every person who receives a Homestead Tax Credit beginning with the July, 1, 2013 tax year will have to have submitted the new Homestead Tax Credit application with its clear warnings about the penalties for perjury for the submission of a false application. Each one of those applications will have been tested by comparing the property address to the address where the homeowner files his or her federal tax return, receives his or her driver's license or motor vehicle registration, or if there is another property address with the owner's same Social Security number.

After five years of all the hard work and expenditure of limited resources to develop this Homestead application database, the Department will not let it deteriorate by failing to update and maintain it each year. For each year in the future, every property receiving a Homestead Tax Credit because an application was submitted will be tested anew regarding that property address to see if there is a conflict with the address used for income tax and driver's license purposes. Any homeowner not meeting this address match test will be individually contacted by the Department for an explanation of the discrepancy. Every purchaser of a property each year will be required to submit the Homestead application which will be checked against the address used for the filing of the tax return and receipt of a driver's license and against the Social Security number of the owner(s).