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DEPARTMENT OF ASSESSMENTS AND TAXATION

FY 2026 OPERATING BUDGET

RESPONSE TO DEPARTMENT OF LEGISLATIVE SERVICES ANALYSIS

Senate Budget and Taxation Committee

Senate Health and Human Services Subcommittee

Senator Cory V. McCray, Chair

February 7, 2025

House Appropriations Committee

House Public Safety and Administration Subcommittee

Delegate Jazz Lewis, Chair

Delegate Julian Ivey, Vice Chair

February 10, 2025

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I. Introduction

The Maryland Department of Assessments and Taxation (also known as the State Department of Assessments and Taxation, or SDAT) is a customer-focused agency that works to ensure property is accurately assessed, business records are appropriately maintained, and necessary tax-related information is conveyed to state agencies and local jurisdictions. The Department's responsibilities can generally be split into three main areas: Business Services, Real Property Valuation and Taxpayer Services Property Tax Credits.

The Business Services Division is comprised of the Business Charter Unit and Business Property Valuation Unit. The Business Charter Unit helps create businesses and ensures that the documents filed by customers meet the requirements of Maryland law. The Business Property Valuation Unit values items that businesses own, lease, or use in order to operate and are subject to taxation by some of Maryland's local jurisdictions.

The Real Property Valuation (Assessments) Division values more than two million residential and commercial property accounts throughout the state. Those values are then certified to local governments, which use the assessments to collect real property taxes. The Department is committed to ensuring uniform and accurate assessments statewide, as well as providing a fair and prompt appeal process.

The Taxpayer Services Division includes the Property Tax Credit Unit and the State Tax Sale Ombudsman's Office. The Property Tax Credit Unit helps administer the Maryland Property Tax Credit Programs, including the Homeowners' Tax Credit, the Renters' Tax Credit, and the Homestead Tax Credit. The Office of the Maryland State Tax Sale Ombudsman helps homeowners understand the tax sale process and navigate the tax sale system, connecting them to housing and financial counseling, legal services, and other benefits programs.

II. FY 2026 Operating Budget Testimony

a. Real Property

- 2025 Property Value Assessments for “Group 1” properties rose 20.1% statewide, which represented an average increase in value of 21.1% (7% per year) for all residential properties and 16.4% (5.5% per year) for all commercial properties over the three-year period since the last “Group 1” reassessment for January 2022.
- All assessment metrics remain strong (assessment-to-sales ratio, coefficient of dispersion, and price-related differential); these metrics continue to fall within industry standards measuring accuracy, but are increasingly coming under pressure, as noted below.
- All new assessment notices were created this year. The notices were designed to be easy to read and accommodate our vendor’s technological capabilities. Following an internal review of the 2024 reassessment notice error, the Department implemented several contractual changes and internal controls to ensure an error-free process this year. So far, the Department is not aware of any issues with its reassessment notification system.
- The Department also implemented a pilot program using a software called Just Appraised which uses AI to read property transfer deeds and extract transfer data for importing into the current SDAT AAVS database. The pilot was tested in Montgomery County and successfully reduced the data entry time by 50% while increasing the accuracy of data to over 99% accurate. This pilot was successful, and the FY 2026 allowance includes approximately \$565K in additional funding for the software.

b. Business and Charter Services

- The Department moved its Uniform Commercial Code to a convenience fee model as required by the state. The Department engaged a third party vendor to make this and several changes to its fee collection procedure to reduce the number of fraudulent payments generated.
- The Ground Rent program continues to help homeowners redeem their ground rents at ever-increasing rates. In 2025, the Department will be adding to its ground rent team to accommodate an influx of redemption requests stemming from local initiatives to address blight and vacant properties. The Division has met directly with local departments of Housing and Community Development to continue ramping efforts up.
- In 2024, the Department moved to its new headquarters in Baltimore City. With this, in-person appointments have opened back up for tax credits and business services. The Department has adopted an online appointment system to streamline wait times and improve the customer experience.
- The MBES Task Order Request for Proposals (TORFP) was recently awarded to three vendors for a Proof of Concept project. SDAT will convert the entire mainframe Maryland Business Express System to JAVA over the next two years, allowing SDAT to fully migrate from the mainframe into the cloud.

c. Business Personal Property

- The Business Personal Property (BPP) team has repeatedly finished each calendar year having assessed at or over 90% of well over 300,000 pending business personal property returns, ensuring that a backlog of assessments does not exist as the Department enters each new filing season.
- Several employees have used the training offered by LinkedIn, and the Department enrolled several assessors in IAAO training. Over half of the assessors can be considered Personal Property Specialists under current IAAO standards.
- The Business Services Division has provided informational sessions to several of SDAT’s professional stakeholders, such as the Maryland State Tax Study Group, the Maryland Society of Accounting and Tax

Professionals, the Secretary of State, and the Attorney General.

- The Franchise Tax unit has successfully completed the 2022 audits (deadline 12/2024) and is on track for the same completion rate of 2023 Audits (deadline 12/2025) with a benchmark of 75% by March 2025.
- The BPP division has implemented a cross training process that allows assessors and clerical staff to successfully provide and independently perform special projects assigned by Program Managers from other units.
- The Utility Valuation Unit finalized their procedures regarding the community solar personal property taxation exemption in Tax-Property 7-239 and recently confirmed two community solar facilities met the exemption for FY 2025.

d. State Tax Sale Ombudsman's Office & Homeowner Protection Program

- Since launching the State Tax Sale Ombudsman's Office (TSO) on January 1, 2020, the Office's Tax Sale Helpline has helped thousands of homeowners access tax credits and grants, housing and financial counseling, legal services and other programs to help pay their delinquent property taxes and retain their homes. In FY2024, TSO helped over 5,263 homeowners pay their delinquent property taxes, connect with resources, and keep their homes; over 20,000 homeowners since its launch in 2020. Approximately 4,579 of these were by phone, and about 684 by email.
- Homeowners throughout the state can access personal, individualized assistance with their delinquent property taxes and related issues by calling the Ombudsman's Tax Sale Helpline at (410) 767-4994, (833) 732-8411 toll-free, or by emailing sdat.taxesale@maryland.gov.
- The TSO continues to administer the Homeowner Protection Program, a final measure for individuals who have or are at risk of entering tax sale, with increasing enrollment every week.
- In the 2024 legislative session, the General Assembly passed bills that require the TSO to procure third-party services. House Bill 54 (2024) and House Bill 16 (2024) are both in the RFP drafting process, with one having a technical writer assigned to the contract. The Department anticipates these services will go live in Fiscal Year 2026.
- In 2024, the TSO initiated a phone outreach campaign to homeowners in tax sale to connect them with the Homeowner Protection Loan Program and additional resources to keep them in their homes.
- The TSO's Maryland Homeowners' Tax Sale Help Center website dat.maryland.gov/taxesale has been a centralized source of information and updates on each county's tax sale process, the up-to-date county-by-county tax sale schedule, and over 150 federal, state, and local resources to help homeowners in every Maryland county pay their property taxes and improve their financial situations.

e. Property Tax Credits

- The Property Tax Credit Programs has revamped their online application system with SDAT's vendor Ernst & Young (EY) since February 2023. This project culminates in SDAT's Renters', Homeowners', and Homestead Tax Credit applications being accessible through a streamlined, customer-friendly online filing experience.
- Based on the findings of the Office of Legislative Audits, the Department is exploring several updates to its tax credit programs to ensure proper administration of state tax credits and a more robust auditing process:
 1. MDE Rental Audit - Annual audit to identify Homestead awarded properties that are now rentals. Cross references existing accounts with MD Department of Environment rental property lead registry list.
 2. County Rental Audits - Annual audit of Homestead-awarded properties in each county against any county rental registry records.
 3. Third-Party Data Analytics Contract - Annual audit of existing Homestead-awarded properties by a third party vendor specializing in data analytics showing Homestead in other states.
 4. Recapture credits found through MVA Audit - Claws back incorrectly awarded credits.
 5. Implementing the Cloud Revenue Integrated Systems project to enhance front-end review software. Currently, the Department's legacy systems cannot support advanced auditing review.

f. Procurement

- All Procurement Officers have completed their Certified Maryland Procurement Officer (CMPO)Training and earned their certification.
- Continues to serve SDAT in all facets of procurement, purchasing of services and commodities, fleet management, facilities management, inventory, security, competitive solicitations, contract management, lease management, IRS compliance, FMIS, ADPICS, credit card reports and the timely submission of all reports due to governing agencies; DBM, DGS and DOIT.
- To date, has fulfilled all ADA requests for employees that need assistance with equipment, parking, and special needs to fulfill work duties.

g. Information Technology

- The One-Stop (CRIS) Tax Credit Development Project is nearing completion. Four Tax Credit Programs are up and running and allow electronic filing of Tax Credit Applications.
- The second CRIS Project, the MBES Conversion Project, has received 8 Proposals. The Department is currently in the review phase of this procurement.
- The Department is preparing to upgrade its Document Management System, Global Search, this upcoming winter.
- The Department is about to begin its long-awaited AAVS Replacement Project. An RFP is currently in the drafting phase and a technical writer has been appointed to assist the Department.

h. Customer Service Contact Center

- In the past 12 months the Customer Service Contact Center (CSCC) answered 79,143 calls and 66% of the calls were answered within 45 seconds. This marks a 12% improvement in answers under 45 seconds from last year to this. Robust analytics and real time data reporting, call monitoring, and customer experience tools continue to be transformative in improving our customer interactions in the Customer Service Contact Center.
- Additionally, Over the last six months, CSCC has assisted with 21,008 calls for the Homeowners' Tax Credit (HTC) program. A total of 64,614 emails have been responded to, utilizing its customer relations management tool to enhance efficiency.

III. Assessor Vacancies and MAAVS Modernization

a. Assessor Vacancies

- SDAT's Real Property (RP) Division represents approximately two-thirds of the entire department and plays the critical role of performing real property assessments of residential, commercial, industrial, and agricultural properties throughout the State. The Division's mission is to promote fairness in taxation for Maryland property owners by performing uniform assessments of real property based on fair market value, and providing certified assessment data to local governments.
- Historically, the Real Property division has had issues with employee retention due to salaries that were not competitive with surrounding jurisdictions, and a large share of its workforce nearing retirement.
- Increases in salary, aggressive hiring, careful personnel management and a focus on employee retention have borne a 66% reduction in assessor vacancies.

b. Maryland Assessment Administration and Valuation System (MAAVS) Modernization

- The Maryland Assessment Administration and Valuation System (MAAVS) is a statewide Computer Assisted

- Mass Appraisal (CAMA) system, which will be used to maintain records for each parcel of land in the state and value each parcel for ad valorem property taxes,
- Property assessments are performed by county or city governments across most of the country - in fact, Maryland is one of only two states performing this function at the state level. As such, Maryland requires a CAMA system that supports this core agency function statewide - MAAVS.
- Our current system is now in year 15 since implementation and a modern system would allow better assistance in performing Maryland's property valuations.
- The MITDP has been approved for this project, and the Department is in the process of hiring a Technical Writer to create the RFP.

IV. Requests for Comment

The Department of Legislative Services draft analysis requested that the Department comment on several areas of concern. Those answers are consolidated below:

- SDAT should discuss the reasons for the decrease in the percentage of the local assessable base assessed by October 31 in recent years and describe the efforts that it is taking to improve the timeliness of these assessments.**

In 2022, the Department sponsored legislation that increased the threshold for businesses to self-report as "no assessments" from \$2,500 to \$20,000. Now, any business with less than \$20,000 in personal property is not included in the local assessable base. Furthermore, the Department is not currently able to audit entities that self-report as a "no assessment." As a result, the local assessable base may currently appear lower than it actually is. The Department has submitted a legislative fix. Additionally, minimum depreciation percentages were reduced from 25% to 10% for most categories of property and from 10% to 5% for data processing equipment beginning in 2023.

The Department assigns accounts a higher base (the top 5 largest in each county and top 100 largest from the previous year) with due dates by November. While this is an effective method for triaging accounts, it also means the highest-assessed accounts are processed after the 10/31 date. In previous years, the timeliness of assessments was impacted by pushing filing deadlines back from April 15 to July 15 in response to the COVID-19 pandemic. In 2024, the Department pushed filing deadlines back from April 15 to June 17 in response to the collapse of the Francis Scott Key Bridge in Baltimore. This has had an impact on the timeliness of assessments.

- SDAT should discuss whether the fiscal 2026 allowance for HTC is adequate based on recent participation trends and projected fiscal 2025 spending**

The Department estimated \$56 million for 2026 because the amounts for 2024 and 2025, which are higher, include outstanding payments that do not impact the 2026 estimate, which is based on current participation. The Department has struggled with receiving appropriate documentation from local jurisdictions to disburse the state reimbursements for local tax credits.

- SDAT should discuss why the estimated costs for CRIS have continued to rise in recent fiscal years, what new scope has been added to the project, the reasons for expanding the scope of the project, and the accuracy of its current total cost estimate of \$36.4 million.**

The Cloud Revenue Integrated Systems Project embodies several major procurements being conducted by the Department. The costs for one of the subprojects, OneStop, have increased. Funds under CRIS have been returned annually except 2024 and 2025 when the Department encumbered funds based on invoices received by its development vendor. Increases in OneStop costs are the result of change orders and work orders for enhancements to Formability (OneStop), new scope (i.e., specific end user functionality), and legislatively mandated new scope in order for the development to be deployed and paid for.

More than \$10M in funding has been returned for this project between 2020 and 2023. The MITDP/ITPR does not reflect funds returned annually. Additionally, SDAT received a breakdown of all spending for the very first time since 2018 at the beginning of FY25 (July 2024).

4. SDAT should comment on why RTC utilization increased significantly in fiscal 2024 and why it is estimated to return to just above fiscal 2023 spending levels in fiscal 2025 and 2026.

The 2024 numbers account for legacy payments to the counties. As with the Homeowner's Tax Credit program, the Department has struggled with receiving appropriate documentation from local jurisdictions to disburse the state reimbursements for local tax credits. While these figures are funds that will need to be distributed, they are not part of the projections based on current participation.

V. Recommended Actions:

1. Add language restricting funds pending two reports on staffing in the Real Property Valuation program.
2. Add language restricting funds pending two reports on the status of the CRIS project.

VI. Agency Response

SDAT has no objection to these recommended actions.