05/05/2025 Testimony – Invitation to Audience – Homestead Credit

Tonight's testimony follows up on my previous testimony (Feb 3rd and Feb 18th). It provides results of a deep dive over the past month or so into the State-maintained Real Property Data File for Anne Arundel County.

The attached six-page PowerPoint presentation demonstrates how the County's implementation of the Homestead Credit has resulted in a ***widespread and significantly large property tax burden inequity***.

I'll highlight two compelling findings:

First, the total assessed value of the Homestead Credit that has accumulated in Anne Arundel, Baltimore, Howard, and Montgomery counties was obtained, and used to calculate a comparable amount of property tax burden that was "redistributed" as a result of this credit in FY25.

⇒ Anne Arundel County's much lower 2% "assessment growth cap" was directly responsible for the ***"redistribution" of $105 million of property tax burden in FY25 alone***, compared to just $2.8 million in Montgomery County.

This huge "redistribution of property tax burden" results in the making of many significant "winners" and "losers" in Anne Arundel County not found in Baltimore, Howard or Montgomery counties.

Second, the 153,500 owner-occupied residential property accounts ranging in value between $100,000 and $1 million were grouped into 91 cohorts by rounding them to the nearest $10,000. For example, properties with assessed values of between $295,500 and $304,999 represent the $300,000 cohort.

Within each cohort, significant winners and losers can be identified. In this analysis, a significant "Loser" is defined as having a property tax bill ***at least 50% more*** than a peer, and a significant "Winner" has a property tax bill ***at least 50% less*** than a peer. Some properties are both, and others are neither. Those are classified as "Somewhere In-between".

⇒ Of these 153,500 properties, **78% are significant "Losers"**, 14% are significant "Winners", and 8% are "Somewhere In-between."

I've provided a link to this interactive dashboard where you can look-up any property account and then instantly get a list of all other properties, within that cohort, with a property tax bill of at least 50% less.

⇒ I encourage my fellow citizens to see where they fit in.

It's too late to "fix" this for FY26, but there's time to have a public debate and consider corrective action before the ***November 2025 deadline for the FY27 Budget***.

Kurt Svendsen, 934 Juliet Court, Arnold

The Homestead Credit
As implemented in Anne Arundel County

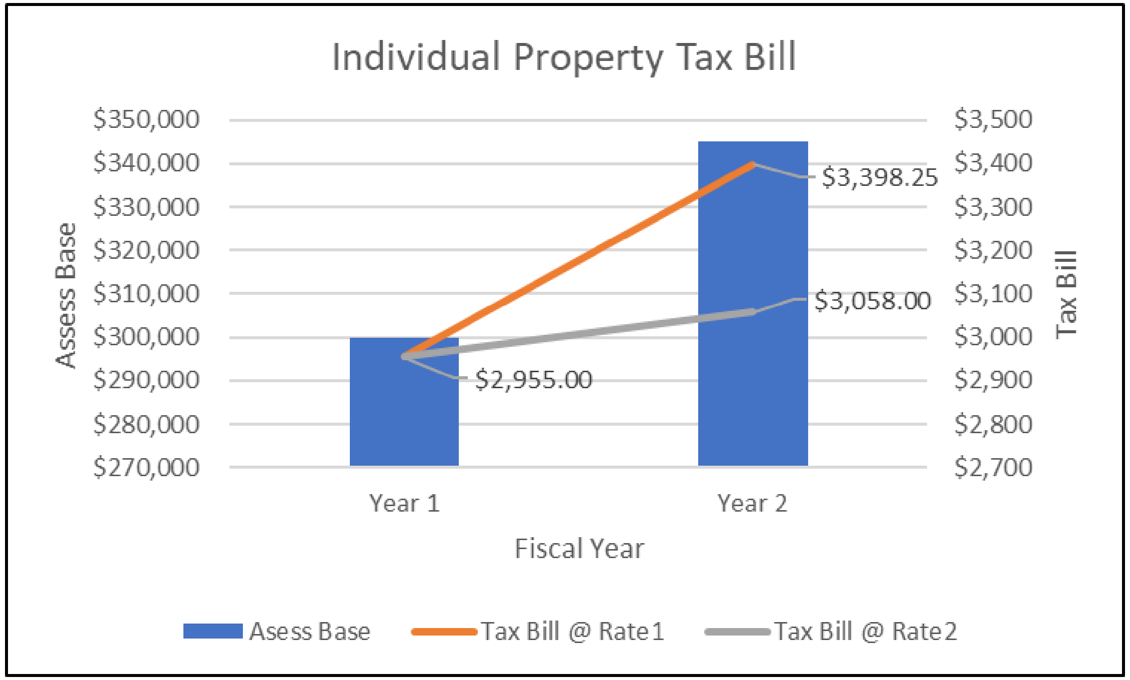
Property Tax Inequity

It's Widespread and Significantly Large

The Homestead Credit – It's Purpose

- "To help homeowners deal with large assessment increases."
  - Became law in late 1970's when ***property tax bills*** were spiking.

Illustrative Example



- Spike caused by ***relationship*** of Base & Rate:
  - ***Base***: Property assessment values spiked.
  - ***Rate 1***: Tax Rate ***was not*** sufficiently lowered.
  - Rate 2: If Tax Rate ***was*** responsibly lowered.
- Elected officials made ***"political"*** decision to ***"do nothing"*** and they enjoyed a huge influx of what seemed to them to be "free" money.
  - They "didn't raise the tax rate" but they ***were*** responsible for a real "spike" in property tax bills.

- Total Assessed Value (TAV) **Base** increase of 15%
- ***Tax Rate <u>was not</u> lowered from Year 1 rate of $0.985 => 15% increase in property tax bill***
- Tax Rate <u>was</u> lowered from $0.985 to $0.886 => 3.5% increase in property tax bill (assumed CPI growth)

The Homestead Credit – Ineffective Protection

- Property Tax bills are determined by the ***relationship*** between two factors:
  - **Base**: Total Assessed Value (TAV) of specific property account (determined by SDAT)
  - **Rate**: Property tax rate per $100 of TAV (annually approved by County Council)
  - **Equation**: (Base / $100) x Rate = Property Tax Bill amount (before exemptions or credits)
- Elected officials tend to refer to them ***separately*** and emphasize what looks good.
  - A focus on the "equation" that relates these two factors and ultimately results in the ***tax bill*** is often dismissed as too "complicated." (and the use of "averages" masks significant disparities)
- The Homestead Credit provides ***ineffective*** protection against "spiking" tax bills.
  - Why? Because it focuses on only one factor: ***the Base***
- Anne Arundel County's "**Property Tax <u>Revenue Cap</u>**" provides ***effective*** protection.
  - Why? Because it focuses it's limit on the result of the equation: ***revenue yield***
  - This citizen-initiated amendment to the Anne Arundel Charter was approved in 1992.
    - It was a direct reaction to spiking property tax bills.
  - It has effectively rendered the Homestead Credit "moot"

The Homestead Credit – Potentially Unconstitutional

- Amendments to this State law in the early 1990’s mandated Counties to set their own local limits for property taxation, ranging from 0% to 10%.
  - Anne Arundel County set this “assessment growth cap percentage” at 2%
  - This is ***substantially lower than all other large Counties*** (except PG County) – see slide 6
- Setting this percentage at a rate below any reasonable long term real property appreciation rate leads to the ***accumulation over time*** of significant variability in tax burdens among owner-occupied residential properties.
- When this statute was first enacted in 1977, the Maryland Attorney General referenced the ***permanence of this lack of uniformity*** as a constitutional concern:

  “… ***if a tax credit continued indefinitely, it would become unconstitutional*** as applied because a person whose property increased substantially in value would be taxed at a lower percentage of actual market value compared to a similar person whose property remained the same or increased insignificantly in value.” (emphasis added)

  62 Opinions of the Attorney General 859 (1977)

The Homestead Credit – Court of Appeals Opinion

- Excerpt from the Opinion of the Court of Appeals of Maryland
  - (No. 50, September 2014 Term)
  - State Department of Assessments and Taxation v. Kevin Andrecs.

Foot note 8 on page 10
(emphasis added)

"The Legislature continued to renew the homestead tax credit each year and, for the first five years, the Attorney General continued to conclude that the provision was constitutional, despite its lack of uniformity in assessment, based on the temporary nature of the credit. *See 72 Opinions of the Attorney General 350 (1987).*

However, after the homestead tax credit was extended for a sixth year (it was eventually made permanent), the Attorney General warned of the provision's "increasingly doubtful constitutionality," ***eventually concluding that the tax credit violated Article 15's uniformity requirement because it produces a lack of uniformity that favors persons with valuable properties.*** *Id.*

These opinions and bill review letters, which all reached the same conclusion, were issued by three successive Attorneys General. ***This Court has never been asked to consider the merits of this analysis of the statute and we do not address the constitutionality of the statute itself in this opinion.***"

The Homestead Credit – Unintended Consequences

- The size of the ***property tax inequity*** is shown in the table below.
  - The magnitude of this "accumulated inequity" is ***directly attributable*** to the "assessment growth cap percentage" set by each County.
    - ***This is very sensitive when set below 5%***
  - The property tax burden that's "redistributed" is calculated for ***comparison*** purposes as:
    - ("weighted" Homestead Credit / 100) x AA County Property Tax Rate of $0.983
  - ***This redistribution results in the making of significant "winners" and "losers"***

Source: SDAT report showing Total Homestead Credit & Cap % by County (URL link to PDF)

County	Total Assessed Value (TAV)	Homestead Credit	Weighted Homestead Credit	Assessment Growth Cap %	Property Tax Burden Redistributed
Anne Arundel	$107,489,592,000	$10,657,947,000	$10,657,947,000	2%	$104,767,619
Baltimore County	$103,869,876,000	$2,524,636,000	$2,612,615,939	4%	$25,682,015
Howard	$65,681,200,000	$240,782,000	$394,048,205	5%	$3,873,494
Montgomery	$232,025,625,000	$612,385,000	$283,697,173	10%	$2,788,743

The Homestead Credit – Winners and Losers

- 153,500 Owner-occupied Residential Property Accounts between $100K and $1M
  - These can be "clustered" into ***90 cohorts*** according to Total Assessed Value (TAV)
    - $100K, $110K, $120K, … $500K, $510K, $520K, … $980K, $990K, $1M
    - These 90 cohorts' range in the number of property accounts from 166 to 5,927
  - ***Significant variability in the tax burdens <u>within</u> each cohort is observed***
- Within each cohort, significant "winners" and "losers" can be identified
  - Significant "Losers" – a property tax bill ***at least 50% <u>more</u>*** than a peer
  - Significant "Winners" – a property tax bill ***at least 50% <u>less</u>*** than a peer
  - Somewhere In-between – Some properties are both and others are neither
- A summation of results for all 153,500 Owner-occupied Residential Properties
  - 120,202, or 78% are Significant "Losers"
  - 21,738, or 14% are Significant "Winners"
  - 11,560, or 8% are Somewhere In-between
- **Where do *YOU* fit in?**
  - Visit the interactive dashboard at: Tableau Public URL