



City of Bowie

2614 Kenhill Drive
Bowie, Maryland 20715

MEMORANDUM

TO: David J. Deutsch
City Manager

FROM: Robert S. Patrick *RS*
Finance Director

SUBJECT: Property Assessments - **DATE:** August 20, 2010
Potential Reductions in FY2012

Background

On August 5, 2010, Mr. Joseph Hensley, Acting Supervisor of Assessments, State of Maryland, made a presentation at City Hall and stated that 80 to 85 percent of the homeowners in the county's Area 2 assessment group would probably receive a reduction in the assessed value of their home. He further stated that properties located in Area 2 may be currently over-assessed by 30 to 40%. Area 2 covers more than half of the county (Exhibit One) and includes all of Bowie. According to Mr. Hensley, the State will be issuing assessment notices to property owners in late December or early January.

Current Year Data

The full assessed value of all properties within the City for FY2011 is \$8.7 billion. The total taxable assessed value for FY2011 is \$6.3 billion, or 72% of the full assessed value. It is the lesser taxable assessed value that is used to compute a property owner's tax bill.

For all intents and purposes, this means that full assessed values could reduce by 28% without decreasing City tax revenues. In other words, the City has a 28% cushion to offset any potential reductions in assessments.

Approximately 75% of the properties within the City have full assessed values of \$400,000 or less. Many of the original Levitt built homes fall in this range. A random sample of these properties indicate that many of these homes are receiving the Homestead Tax Credit, which means that the taxable assessment is less than the full assessed value. For example, it is not uncommon to find a property located in the City with a taxable assessed value of less than 60% of the full assessed value. Exhibit Two provides full and taxable

assessments for properties located in the City as well as properties located just outside the City borders.

It is important to note that the reference made by the State Department of Assessments and Taxation about properties being over-assessed by 30 to 40% refers to the entire Area 2 assessment group. The Area 2 assessment group spans from the northern to the southern boundaries of the County. Area 2 includes all of the City of Bowie as well as the surrounding neighborhoods.

Many of the surrounding neighborhoods are newer and the assessed values of these homes are much higher than the average Bowie residence. It is very possible that some of the properties in these surrounding neighborhoods may experience 30 to 40% reductions in the full assessed value of their property. For example, a property located just outside the City limits that is currently assessed at \$956,000 recently sold for \$608,000 (see Example 21 on Exhibit Two). Properties in this neighborhood will probably see significant reductions in the assessed values of their homes.

Example 18 in Exhibit Two is a property in which the assessment was revised between the second and third year of the triennial cycle. This may have occurred as a result of the property owner requesting the State Department of Assessments and Taxation to review the value of the property during the second year of the regular triennial cycle. Mr. Hensley mentioned during his presentation that there is a little known process that allows property owners to file a petition for review of their property value within any year of the 3 year assessment cycle. The petition must be filed no later than the first work day following January 1 to request a review of the assessed value for the next taxable year beginning July 1.

Exhibit Three has been attached for informational purposes only. This exhibit provides the FY2011 property tax rates for Bowie and 9 other municipalities.

Impact of Reductions in Assessments – Potential Loss of Revenue

As mentioned previously, Mr. Hensley of the State Department of Assessments and Taxation stated that properties in the Area 2 assessment group may be over-assessed by 30 to 40%. The following table shows the impact on City tax revenues if property assessments are reduced by 30 or 40%.

	<u>FY2011</u>	<u>Reduction in Assessed Values</u>	
		<u>30%</u>	<u>40%</u>
Full Assessed Value (in billions)	\$ 8.7	\$ 6.1	\$ 5.2
Taxable Assessed Value (in billions)	\$ 6.3	\$ 6.1	\$ 5.2
City Tax Rate (per \$100 of Assessed Value)	\$ 0.40	\$ 0.40	\$ 0.40
City tax revenue (in millions)	\$ 25.2	\$ 24.4	\$ 20.8
Less FY2011 City tax revenue (in millions)		<u>\$ (25.2)</u>	<u>\$ (25.2)</u>
Reduction in City tax revenue due to lower assessments (in millions)		<u>\$ (0.8)</u>	<u>\$ (4.4)</u>

As the table above indicates, City tax revenues would decrease by \$800,000 if assessed values were reduced by 30%. The estimated decrease in City tax revenues would be \$4.4 million if assessed values were reduced by 40%.

Vulnerable properties

There are some properties which are more vulnerable to significant reductions in their assessed values. Fortunately, there are only about 11% of the total taxable properties within the City that may be "at risk" for major reductions in their property values. Properties with the following characteristics will be more susceptible to significant reductions in their assessed values:

1. Residential homes currently assessed at \$500,000 or more.
2. Residential properties that are not receiving the Homestead Tax Credit. Rental properties account for most of these types of properties.
3. Commercial properties, such as the MarketPlace Shopping Center, Bowie Town Center, and the Melford area.

Summary

The State Department of Assessments and Taxation intends on mailing out notices of assessments to individuals by late December 2010 or early January 2011. Staff will continue to monitor the assessment situation and inquire periodically with the State for further updates.

The significant difference of 28% between the full assessment values versus the taxable assessment values in the current fiscal year provides an enviable buffer for the reductions in property values that will occur in FY2012. This buffer has been created by the high percentage of owner occupied homes that are receiving the Homestead Tax Credit. In addition, it appears that homes with assessed values of less than \$400,000 are less susceptible to major reductions in their assessed value based on the purchase price of recently sold homes. As was mentioned previously, properties with assessed values of under \$400,000 account for 75% of all properties in the City.

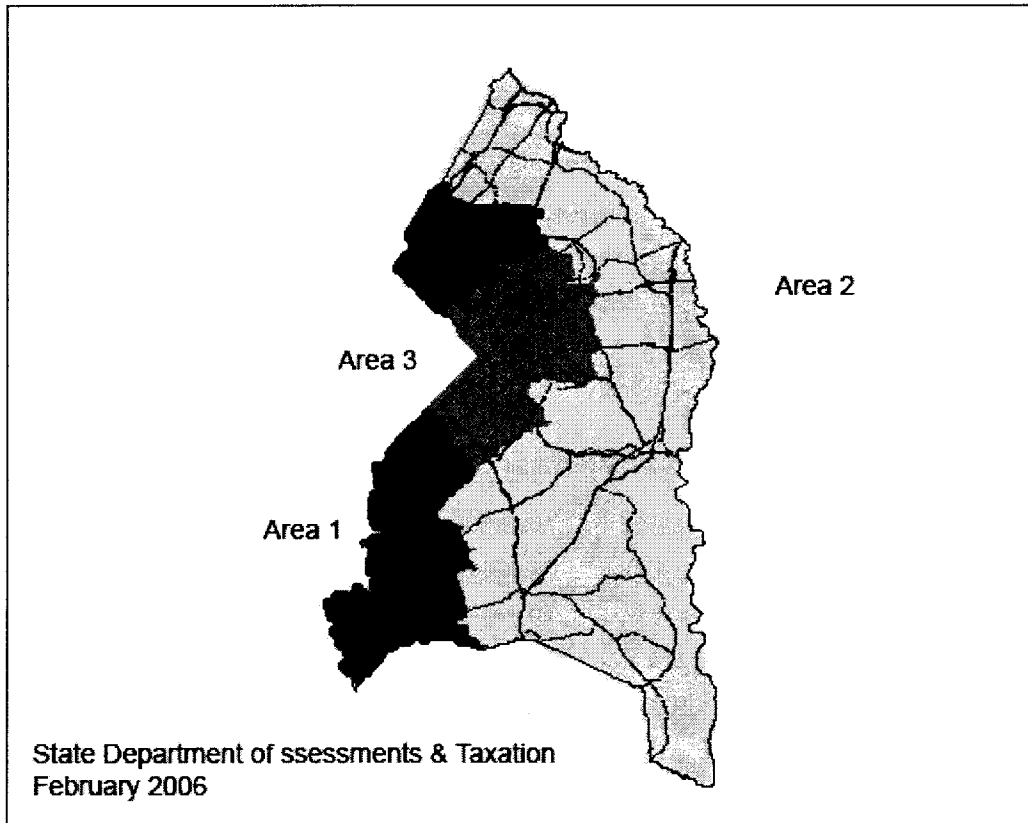
It seems probable that due to these factors, the City may not experience the 30 to 40% reductions as suggested for the Area 2 assessment group by the State Department of Assessments and Taxation. However, it is unclear as to what degree property values may decrease in the future and the City needs to be cautious in its long term forecasting of future property tax revenues.



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Maryland State Department of Assessments and Taxation

Prince George's County Residential Reassessment Areas



Area 1	Assessment Area 1 will be reassessed for January 1, 2010
Area 2	Assessment Area 2 will be reassessed for January 1, 2011
Area 3	Assessment Area 3 will be reassessed for January 1, 2012

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Assessment Values
FY2011

Properties located in the City

Residential Properties	Full Assessed Value	Taxable Assessed Value	% of Full Assessed Value	Neighborhood	Sales Price	Comments
Example 1	\$ 340,250	\$ 192,548	57%	Foxhill	N/A	N/A
Example 2	\$ 423,790	\$ 240,997	57%	Longridge	N/A	N/A
Example 3	\$ 497,710	\$ 271,356	55%	Westview	N/A	N/A
Example 4	\$ 760,220	\$ 446,513	59%	Woodmore Highlands	N/A	N/A
Example 5	\$ 911,050	\$ 911,050	100%	Tall Oaks Estates	N/A	No Homestead Tax Credit
Example 6	\$ 844,710	\$ 672,870	80%	Tall Oaks Estates	N/A	N/A
Example 7	\$ 599,840	\$ 372,210	62%	Collington Station	N/A	N/A
Example 8	\$ 586,630	\$ 586,630	100%	Collington Station	N/A	No Homestead Tax Credit
Example 9	\$ 357,010	\$ 192,520	54%	Buckingham	N/A	N/A
Example 10	\$ 584,880	\$ 320,655	55%	Glen Allen	N/A	N/A

Properties located in the City - Sold Recently

Example 11	\$ 332,250	\$ 332,250	100%	Kenilworth	\$ 245,000	74% of full assessed value
Example 12	\$ 329,160	\$ 329,160	100%	Rockledge	\$ 243,000	74% of full assessed value
Example 13	\$ 342,580	\$ 342,580	100%	Pointer Ridge	\$ 270,000	79% of full assessed value
Example 14	\$ 347,030	\$ 347,030	100%	Meadowbrook	\$ 300,000	86% of full assessed value
Example 15	\$ 378,700	\$ 378,700	100%	Northridge	\$ 288,500	76% of full assessed value

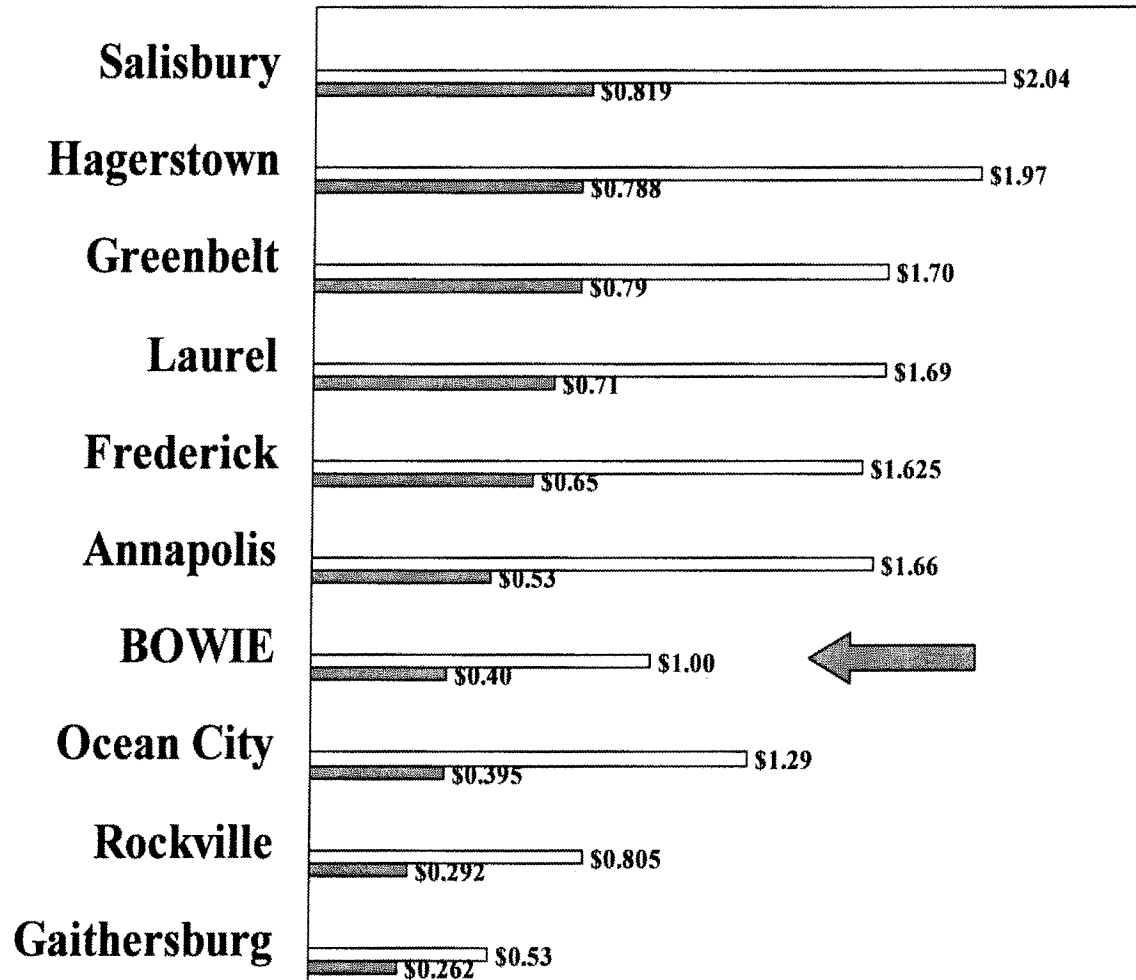
Properties located outside the City

Residential Properties	Full Assessed Value	Taxable Assessed Value	% of Full Assessed Value	Neighborhood	Sales Price	Comments
Example 16	\$ 900,870	\$ 546,586	61%	Westwood	N/A	N/A
Example 17	\$ 1,074,070	\$ 669,083	62%	Westwood	N/A	N/A
Example 18	\$ 697,260	\$ 669,559	96%	Westwood	N/A	Reassessed in 3rd yr. of cycle. Full assessed value before reassessment = \$1,060,258
Example 19	\$ 808,100	\$ 808,100	100%	Fairwood	N/A	No Homestead Tax Credit
Example 20	\$ 842,690	\$ 842,690	100%	Mount Oak Manor	N/A	No Homestead Tax Credit

Properties located outside the City - Sold Recently

Example 21	\$ 956,190	\$ 956,190	100%	Fairwood	\$ 608,000	64% of full assessed value
Example 22	\$ 804,870	\$ 804,870	100%	Fairwood	\$ 502,779	62% of full assessed value
Example 23	\$ 690,750	\$ 690,750	100%	Fairwood	\$ 430,000	62% of full assessed value
Example 24	\$ 616,580	\$ 616,580	100%	Fairwood	\$ 414,990	67% of full assessed value
Example 25	\$ 384,960	\$ 384,960	100%	Highbridge	\$ 365,000	95% of full assessed value

FY2011 Property Tax Rates – Business Personal and Real Property



Note: Some municipalities have additional charges added to this rate.

Source: State of Maryland Department of Assessments and Taxation