FROM	NAME & TITLE	Edward J. Gallagher, Director
	AGENCY NAME & ADDRESS	Department of Finance Room 454 City Hall (396 4940)
	SUBJECT	City Council Bill No. 08-0058 – Property Tax Credit – Energy Devices

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

DATE:

April 18, 2008

Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

Bill Description

Council Bill No 08-0058 is proposing to grant a property tax credit for buildings for which energy devices such as solar panels for generating electricity, solar water-heating equipment and geothermal energy devices have been installed. The tax credit will be for a period of 5 years and would apply as follow: for single family dwellings, the tax credit would be 1/3 of qualified cost, with a maximum credit of $25,000; for multi-family dwellings, commercial, or industrial-use buildings, the tax credit would be 1/3 of the qualified cost, with a maximum credit of $150,000. The total tax credit would be granted against the annual real property tax due at a rate of 1/5 per year for a period of 5 years.

Fiscal Impact

It is estimated that this program could cost as much as $1.6 million in the first year, with a total cumulative cost of $32.0 million by the eighth year, when the legislation proposes that the program would sunset (January 2012). These estimates are based on relatively conservative assumptions of 200 new single-dwelling owners qualifying for the credit each year and 20 new multi-dwelling, commercial or industrial owners qualifying each year.

	Estimated Tax Credit Cost
Fiscal 2009	$1,600,000
Fiscal 2010	$3,200,000
Fiscal 2011	$4,800,000
Fiscal 2012	$6,400,000
Fiscal 2013	$6,400,000
Fiscal 2014	$4,800,000
Fiscal 2015	$3,200,000
Fiscal 2016	$1,600,000
Total=	$32,000,000

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This represents a significant General Fund fiscal impact that could not be absorbed without impacting City services.

Moreover, this program would represent essentially a grant program with no necessary gain in property tax revenues from reassessments as a result of the energy-efficient improvements. Each dollar spent on the grant has a negative impact on the City's fiscal position, and this does not meet the stated intent and spirit of the Green Building Task Force policy objective or criteria -- the goal of revenue neutrality.

This generous tax credit expense is on top of all existing tax credit programs offered by the City, which are projected to total $14.8 million in Fiscal 2009. It is difficult to see how it makes sense for the most fiscally stressed jurisdiction in the State of Maryland to offer this type of grant program when it would have no impact on the City's strategic goal of growing the tax base.

Finally, it should be noted that at least one Federal tax subsidy program, and perhaps more, require that local government subsidies be deducted from the taxpayer's Federal tax subsidy. This program would have the absolutely unacceptable effect in some cases of having the City subsidize the Federal government while reducing the anticipated net taxpayer benefit.

<u>Policy issues and the appropriate role for the City</u>

The Finance Department believes that Federal, state and local governments each have a unique and proper role that they should play to address the issues of global warming, reducing oil dependency, reducing CO2 emission, and addressing other aspects of environmental degradation. The Federal government has the primary role to take the lead in establishing national standards, policy and tools. Further it must use the "power tool" of the Federal income tax, as it is the most appropriate and effective tax policy tool available to affect policy outcomes. The State governments' most proper role is to level the playing field among wealthy and poor communities and provide judicial, transportation, education and social services. The state also has a role with its powerful, diverse, broad-based tax tools to experiment with tax policy to encourage desired policy outcomes. The local level's primary responsibility is to provide basic community services within the severe limits of state grant of taxing authority, and to guide proper land use decisions. And poor, high tax burden jurisdictions like Baltimore City must focus on the provision of basic services, maximize the yield from its limited tax base, and focus on strategic investments that serve to enhance that tax base.

The City must strive to be a model of conservation. The magic of the multilevel federal system of government in this country is the creativity that results from the diverse approaches of states and local government. However, the correct path of action for the most fiscally stressed subdivision in Maryland cannot be tax subsidies. It should be on the creative use of talents to model excellence in the management and use of energy resources. That is being achieved through the leadership efforts of the Department of Public Works, General Services Bureau, and the new Office of Sustainability in the Department of Planning. In addition, as both the City Master Plan and the Baltimore City Green Building Task Force Report call for, the City should examine how best to use the building code to maximize "green" results. Within the control of local government, energy experts point to life and building style as the most important action area. Local government can impact the size, shape, orientation and location of our homes and other buildings.

Numerous Federal and State credit and grant programs exist

There are many existing income tax credits, grants and other programs that are addressing this issue. These programs are funded by the levels of government that have sufficient fiscal resources in contrast to the City. The City's limited resources are best used to assist property owners in locating and using state and federal programs. The provisions of this bill providing that this grant will be available only after all other applicable Federal and State credits while good in intention is a cause for concern as certain of these programs require that local programs be used first before the higher level of government benefit is applied.

Impact on assessed value of the property

Because the energy systems are in effect energy system replacements, they may or may not have an impact on the assessed value of residential property. Because they are system replacements in commercial properties they may have little effect on the net income stream and little or no effect on commercial assessments. As important, such improvements would not impact materially the valuation of commercial property, which is a primary result of income capitalization approaches. Maryland State law, Tax Property Article, 8-240 places further limits on the manner in which the State Department of Assessments is to address solar energy systems in their assessments.

Linking this credit to a tax that is not directly or necessarily affected by the investment in effect constitutes an appropriation by the City Council. This program is in fact a grant to encourage the use of green power. Furthermore, it is a grant that excludes basic fiscally responsible elements. For example, there is no income test or income eligibility limits and no limit on the amount the program can cost the City.

Finance Department Position

For these reasons, the Finance Department is opposed to Council Bill 08-0058.

cc: Angela Gibson