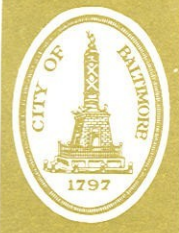


FROM	NAME & TITLE	Edward J. Gallagher, Director
	AGENCY NAME & ADDRESS	Department of Finance Room 454 City Hall (396-4940)
	SUBJECT	City Council Bill No. 08-0012R – Newly Constructed Dwelling Property Tax Credit – Application Period

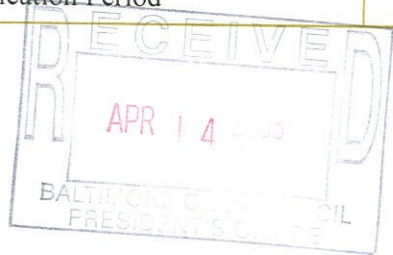


CITY of
BALTIMORE
MEMO



TO

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



DATE: April 11, 2008

Bill Description:

Council Bill No 08-0012R proposes to review the practicality of the current time requirement for eligible homeowners to file an application for the Newly Constructed Dwelling Property Tax Credit and to report the findings of the review to the City Council.

Program Description:

The Newly Constructed Dwelling Property Tax Credit program was designed to encourage the construction and purchase of new homes. The program provides a five-year tax credit (50% in the first taxable year and declining by 10 percentage points thereafter) on newly constructed or substantially rehabbed dwellings that have been cited as being vacant and abandoned for more than one year. The program adopted by the City Council was effective February 2, 1995. City Code Article 28 Subtitle 10 Section 5 states, among other things, that in order to qualify for the credit a homeowner must file an application for the credit no later than 90 days after settling on the purchase of the dwelling.

Analysis:

The Finance Department believes the current application period of 90 days is practical and appropriate for several reasons. The Department acknowledges that the property tax rate in Baltimore City is very high compared to the surrounding counties and that this high tax rate is one factor that influences many residents' decision whether or not to purchase homes in the city. This property tax credit is one tool that is meant to help encourage developers to build or rehabilitate homes in the city and residents to purchase them. As such, the credit must be a factor in the resident's decision to purchase the home.

1. The tax credit is an incentive, not an entitlement.

The intention of this tax credit is to be an incentive to promote the construction and purchase of new homes in the City, and to be used as a sales tool by realtors and developers. The program was enacted as a result of the development recession of the early 1990's and was intended as an incentive not an entitlement. The application deadline was designed to reflect the incentive quality of the tax expenditure and is necessary to maintaining the incentive nature of the program.

The tax credit must be a driving factor in the decision to purchase the home, not a reward after the fact. If the application deadline is removed or extended well beyond the date of settlement, then more homeowners who purchase their homes without any knowledge of the credit will end up receiving the credit. When this happens, the credit very clearly moves from being an incentive in their decision to purchase the home to being a reward that they are entitled to simply because their home is new construction. There is no rational basis for the City to support an entitlement to reduced property taxes for homeowners in newly constructed homes at the expense of other property owners. Rather, reflected in the work of the Blue Ribbon Committee on Taxes and Fees, the Administration is committed to identifying alternative sources of revenue in order to support property tax rate reductions for all property owners and investors.

Comments

2. The program has a reasonable time frame for application.

The program was enacted with a 90-day time limit for application. This is a reasonable time limit compared with other tax expenditure programs. For example, the Historic tax credit application must precede the commencement of work. The Brownfields tax credit must be applied for before the project commences. The State Department of Assessments and Taxation allows homeowners just 60 days to file an assessment appeal upon purchase of a property and just 45 days to file an appeal of a new reassessment. A 90-day application period is a practical time period for homeowners to apply for the tax credit based on the fact that this tax credit has encouraged the purchase of the new home. That is, if the credit is a factor in the person's decision to purchase, then they clearly know about the credit at the time of settlement and arguably should not have any problem submitting the brief one-page application within 90 days of the settlement.

3. The program is being effectively promoted.

The City requests that applicants for the Newly Constructed Dwelling Tax Credit complete an informational survey when they apply for the credit. Out of 438 applicants that completed the questionnaire during Fiscal 2008 (through March), the survey shows that 55% of applicants received information about the tax credit from a realtor, 37% from a developer, 10% from City agencies or community associations, and 17% from other sources (percentages do not add to 100 because respondents can list more than one source). Information about this and other tax credits, including the application form, is readily available on the City of Baltimore website, under both the Finance Department and Baltimore Housing, and on the Live Baltimore website.

4. Other aspects regarding program efficiency

The Newly Constructed Dwelling Tax Credit program is estimated to cost the City \$4.9 million in Fiscal 2009. Through March 2008, 2,772 credits have been granted since the program's inception in 1996. The cumulative cost of the program since its inception through Fiscal 2009 is estimated to be about \$19.4 million. This represents a significant amount of investment of City tax dollars that has reached a very small portion of residential homeowners.

Furthermore, data collected during Fiscal 2008 from the questionnaire that applicants complete indicates that more than one-third of the applicants did not know about the tax credit prior to purchase and that the existence of the tax credit did not play a role in their decision to purchase the home. For this group, this program did not serve as an incentive to purchase their home. Expanding the application deadline beyond 90 days would exacerbate this problem by enabling an even higher number of applicants to receive the credit without it having played a role in their decision to buy.

Given the significant cost of the program and the survey results that indicate, at least for a good portion of those receiving the credit, that the credit was not an incentive in their decision to purchase the home, serious attention should be given to the cost-benefits of the program as a development incentive and whether it should continue at all, when the program is due for re-authorization in 2009.

cc: Angela Gibson
Pedro Aponte