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FROM		
NAME & TITLE	Robert Cenname, Budget Director	
AGENCY NAME & ADDRESS	Department of Finance Room 454, City Hall (410) 396-4940	
SUBJECT	City Council Bill #19-0414: High-Performance Newly Constructed Dwellings – Property Tax Credit	

CITY of BALTIMORE

MEMO

TO

The Honorable President and
Members of the City Council
Room 400, City Hall

DATE: July 24, 2019

City Council Bill 19-0335 proposes to establish a property tax credit for high performance newly constructed dwellings; clarifies limitations, conditions and qualifications for credit eligibility; provides for the amount, duration and administration of the credit; defines terms and provides for a special effective date; and relates generally to a property tax credit for high-performance newly constructed dwellings.

Background and Context

According to Maryland Tax-Property Code 9-304(d), as of June 30, 2019 owners of newly constructed dwellings are no longer eligible for the Newly Constructed Dwellings Tax Credit (NCDTC). In its place, the Council has introduced legislation for a Newly Constructed Tax Credit with certain requirements for energy efficiency and performance.

The proposed credit would be available under Maryland Tax-Property Code 9-242, which authorizes a tax credit for high-performance buildings. State law stipulates that the municipal corporation proposing a credit under the auspices of this section of the Annotated Code may determine the amount, duration and criteria for such a credit. Any refresh to the NCDTC must wait until the 2020 State legislative session.

Fiscal Impact

Tax credits granted under this section of the MD Annotated Code shall equal the amount of property tax imposed on the real property, less the amount of any other credit applicable in that year, multiplied by:

Credit Year	Credit Amount
Year 1	50% for 1st Full Taxable Year
Year 2	40% for 2nd Full Taxable Year
Year 3	30% for 3rd Full Taxable Year
Year 4	20% for 4th Full Taxable Year
Year 5	10% for 5th Full Taxable Year
Year 6	Credit Expires

In Fiscal 2019 the City estimates having spent $2.2 million to support the Newly Constructed Dwelling Tax Credit, with about 1,000 beneficiaries receiving the credit during its final year. Since inception of the Credit during Fiscal 1996, the City has forgone $45.6 million in property tax revenue for 4,776 total recipients. On average, the five-year tax credit has benefited over 1,000 recipients annually, at a cost to taxpayers of $2 million. Assuming similar interest and uptake in this proposed iteration of the credit, which would allow new applicants until June 30, 2024 and grant subsidies until June 30, 2028, the City can anticipate spending an additional $15 million to support approximately 1,000 new recipients.

Note that this estimate assumes demand and utilization consistent with the expired NCDTC, not taking into consideration the high-performance and efficiency requirements, which are more commonplace with newly constructed buildings. Finance defers to the Department of Housing and Community Development on the regulation and prevalence regarding these criteria.

Finance estimates a cost of $60,000 to implement a new online application based on experience with currently established credits. What's more, given the timing, paper applications will need to be accepted and processed during the transition period. This could impact the number of applicants and amount of subsidy granted during this credit's first full year.

Analysis

The Department of Finance has two tools for evaluating the effectiveness of the City's tax credits: 1. A recipient survey, provided to each credit applicant at the time of application, and 2. A deeper economic analysis is being performed by the City's Ten-Year Financial Plan consultants, Ernst and Young.

Recipient Survey

Since 1996 the City Charter has required that the Director of Finance report on the estimated amount of credits received under Article 28, Section 10-5, Newly Constructed Dwellings. This includes an evaluation of public costs and benefits, as well as recommending steps to further the usefulness of the tax credit program, whatever that may entail. Per law, Finance issues the recipient survey as part of this evaluation, and annually reports the results and findings of this analysis in its budget publications.

Recent analysis of the applicant pool from Fiscal 2015 to Fiscal 2019 shows that only 40% of recipients respond to this survey. But, of these respondents, 36% indicate having no prior knowledge of the Credit. This suggests that the Credit was not a determining factor for some homeowners' purchase decision. Additionally, survey results show that existing homeowners were more likely than first-time homebuyers to utilize the credit, which suggests the Credit is not a driver of net new residents into the City.

Program Evaluation

The City's Ten-Year Financial Plan consultant, Ernst and Young, is currently reviewing all City tax credits. Although this work is not yet complete, at least three concerns are evident: inequitable outcomes for residents, lopsided benefits for developers, and tax credit overlap.

Equity:

Recipients of this credit are likely to be higher income compared to the average resident purchasing from the City's existing housing stock. This suggests that the Credit has a regressive effect whereby marginal home purchasers are subsidizing benefits which accrue to relatively prosperous residents in neighborhoods where adequate market incentives already exist. Moreover, data may suggest that this subsidy distorts the housing market toward new construction of owner-occupied dwellings, away from rehabilitation of currently occupied dwellings, where the latter are more affordable for the marginal homebuyer. Only 10% of City neighborhoods received 90% of the benefit from Fiscal 2015 through Fiscal 2019. In order, the top ten recipient neighborhoods include Greektown, Uplands, Canton, Locust Point, Downtown, Inner Harbor, Brewers Hill, Middle East, Pigtown, and Hampden.

Developers:

Research suggests that credits are not a determining factor within more mature markets, where adequate incentives already exists. In these markets, the cost of the credit is likely baked into the purchase price of the home, with the ultimate benefit accruing to the developer rather than the homeowner.

Overlap:

Simultaneous availability of the proposed NCDTC, High-Performance Rental Housing Credit, and other preservation and investment credits diminishes the effect of any individual credit. The City's entire suite of tax credits must be further evaluated to determine how these subsidies can be targeted to achieve maximum net benefit for the City and its residents.

Position

The Department of Finance does not object this legislation as a temporary measure for the recently expired Newly Constructed Dwellings Tax Credit, so that buyers who have already begun the process of applying for the credit can be considered through Fiscal 2020.

cc: Henry Raymond
Jeffrey Amoros