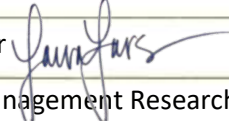



FROM	NAME & TITLE	Laura Larsen, Budget Director 	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 469, City Hall		
	SUBJECT	City Council Bill 22-0259—Recordation and Transfer Taxes – Yield Excise Tax - Transactions Assessed		

DATE:

TO

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

October 20, 2023

Position: Oppose

The Department of Finance is herein reporting on City Council Bill 22-0259, Recordation and Transfer Taxes – Yield Excise Tax - Transactions Assessed, the purpose of which is to reduce the value of transactions subject to the Yield Excise Tax from \$1 million to \$750,000.

Background

Ordinance 18-215, enacted in January 2019, established the Yield Excise Tax. This tax is imposed on real property transactions exceeding \$1 million that are subject to recordation and transfer taxes. Proceeds from the tax are dedicated to the Affordable Housing Trust Fund (AHTF) and restricted to funding citywide affordable housing initiatives. In March 2019, this law was amended by Ordinance 19-233 to correct the tax rates and how the tax was applied. As of March 2023, the City has contributed \$48.2 million to the AHTF resulting from this tax.

Fiscal Impact

The Department of Finance estimates an increased annual contribution of \$458,000 to the AHTF based on this legislation. It is estimated that reducing the eligibility threshold from \$1 million to \$750,000, as proposed by this legislation, would increase the number of eligible transactions subject to the Yield Excise Tax by 71 transactions per year, with an average tax of \$6,480.

This estimate is based on assessment data and identified transactions with sale records. The calculation for this fiscal impact assumes that all identified transactions paid both taxes subject to the Yield Excise Tax. Therefore, transactions subject to the Recordation Tax only (i.e. refinancing) were not considered. It should be noted that reports Finance previously used to track transactional data by dollar value are not currently available because of the City’s transition to Workday.

Based on historical revenue data, if this legislation had been in effect since 2019, an additional 356 transactions would have been subject to this tax. The average tax on these transactions would have been \$6,400, resulting in an additional \$2.3 million contributed to the AHTF. Of the additional 356 transactions subject to the tax, 277 were residential properties and 79 were non-residential properties.

Other Considerations

The Department of Finance recognizes the importance of funding affordable housing initiatives for our most vulnerable residents; however, this legislation represents an indirect tax increase on real property transactions with a consideration value between \$750,000 and \$1.0 million. This policy could have the undesirable impact of further reducing the City’s property value competitiveness compared to other

jurisdictions in the State and further limit the City's flexibility for alternative sources of revenues. It would also reduce incentives for investment in the city during continued population decline.

Reducing the cap does not consider the rise in property values the City has experienced since 2020. When this tax was put in place it was intended to primarily impact commercial transactions. By reducing the cap to \$750,000 it will now impact a larger percentage of residential properties.

Conclusion

This legislation aims to reduce the value of transactions subject to the Yield Excise Tax from \$1 million to \$750,000. The Department of Finance estimates this would increase the annual contribution to the Affordable Housing Trust Fund by \$458,000. However, this legislation, like the current Yield Excise Tax, represents an indirect tax increase on property transactions, which may impact property transactions and the City's competitiveness with surrounding jurisdictions.

For the reasons stated above, the Department of Finance opposes City Council Bill 22-0259.

cc: Michael Moiseyev
Nina Themelis