

Andrew Klein

FROM	NAME & TITLE	Andrew W. Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (396-4941)
	SUBJECT	City Council Bill No. 13-0176 – Tax Credits – High-Performance Market-Rate Rental Housing

CITY of
BALTIMORE
MEMO



DATE: March 12, 2013

TO

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

City Council Bill 13-0176 proposes a 15 year tax credit for High-performance Market-Rate Rental Housing based on a percentage of the difference between the property tax liability on the first assessment after the occupancy permit is issued and the tax liability that would have been owed if the project had not been undertaken.

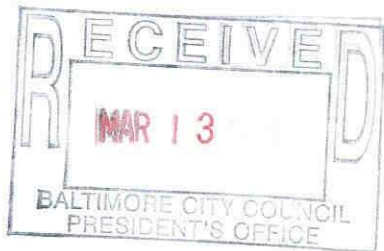
Analysis

The High-Performance Market-Rate Rental Housing Tax Credit is designed to increase population in downtown Baltimore. Recent analyses have shown that there is a propensity for young professionals to prefer an urban environment close to where they work. It is the City's intention to capitalize on these recent trends by causing existing, underutilized commercial structures in the Downtown Management Area to be converted to mixed residential-commercial use through the use of this tax credit. New apartment structures will also fall under this tax credit.

It is anticipated that an additional 1,878 new apartments will be added to the existing inventory in the downtown core. Along with the addition of the new apartment units are expected to come many new businesses that will be needed to support the population increase, thus providing a general revitalization effect to the downtown core.

The credit will be limited to the following percentages:

Year	Percentage
1-2	100%
3-5	80%
6	70%
7	60%
8-10	50%
11	40%
12	30%
13-15	20%



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The tax credit, based on the above schedule, may not be greater than the difference of the tax computed on the full cash value of the property after the occupancy permit was issued and the base full cash value of the property assessed at the time of the application.

Fiscal Impact

The High-Performance Market-Rate Rental Housing Tax Credit is a 15 year credit that will reduce the amount of taxes due on the difference between the existing property tax assessment and the final assessment after construction is completed. The 15 year credit will result in an average of 57% reduction in the property tax due on the increase in assessment.

This highly targeted tax credit is designed to accomplish significant population growth within a defined geographic area for a 5 year period of time and then to sunset. The estimates are based on current projects that are in the pipeline. Based on these potential projects, it is anticipated that supply of apartments will grow to equal the demand, which is estimated at 2,000 units within the 5 year period of the credit, at which time the credit will sunset to prevent an over-supply situation.

Over a 20 year period, at which time the credit will expire, it is estimated that the credit will generate \$67.4M in new property taxes with the credit cost being \$27.5M. This results in a net increase of \$39.9M in additional property taxes. The average annual cost of the property tax is estimated at \$1.4M over the 20 year period with the peak tax credit cost anticipated to be \$2.5M in year 5 of the credit.

Finance Department Position

The Finance Department supports Council Bill 13-0176.

cc: Harry E. Black
Angela Gibson
William Voorhees