

*Andrew Kleine*

<b>FROM</b>	NAME & TITLE	Andrew Kleine, Chief
	AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance
	SUBJECT	<b>City Council Bill 14-0420 – Property Tax Credits – Urban Agriculture</b>

CITY of  
BALTIMORE  
**MEMO**



**TO**

DATE:  
September 22, 2014

Honorable President and  
Members of the City Council  
c/o Natawna B. Austin  
Room 409, City Hall

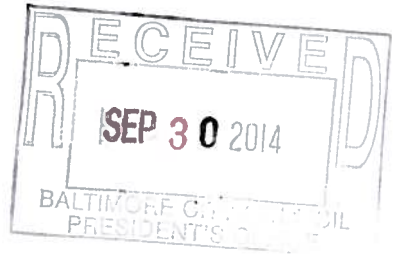
This CCB 14-0420 – Property Tax Credits – Urban Agriculture is for the purpose of establishing a property tax credit for urban agriculture property in the City of Baltimore, providing for the calculation and administration of said credit, and requiring reporting by the Director of Finance to the Board of Estimates and the City Council on the public costs and benefits of the credit.

**Analysis**

This bill will implement, within Baltimore City, the real property tax credit allowed for under § 9-253 of the Tax-Property Article of the Maryland Code. This section provides the counties in Maryland with the opportunity to adopt a five year tax credit for “urban agriculture property” that is utilized for “urban agriculture purposes.” “Urban agriculture property” is defined in the State law as real property that is: “(i) at least 1/8<sup>th</sup> of an acre and not more than 5 acres; (ii) located in a priority funding area, as defined in § 5-7B-02 of the State Finance and Procurement Article (which includes the entire City of Baltimore); and (iii) used for urban agricultural purposes.” §9-253 goes on to define “urban agricultural purposes” as: “(i) crop production activities,...; (ii) environmental mitigation activities,...; (iii) community development activities,...; (iv) economic development activities,...; and (v) temporary produce stands used for the sale of produce raised on the premises.”

The qualifications for the credit in CCB 14-0420 are somewhat more stringent, requiring that the property must, “unless a waiver is granted... produce agricultural products valued at \$5,000 or more per tax year.” However, it should be noted that the legislation proposed does not specify what constitutes an “agricultural product.”

The credit is a five year credit that reduces the City real property tax liability on the property in question by 90% after the application of any other applicable tax credits. The credit can be extended for an additional five years if the property owner applies to renew the credit. Finally, if at any time during the initial five year term of the credit, or during a five year renewal term, the property ceases to be used for urban agricultural purposes, the credit is terminated and the property owner is liable for all of the property taxes that would have been imposed during that five year term had the credit not been granted.



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## **Fiscal Impact**

The total number of properties that would qualify for this credit is difficult to quantify. The language that is currently contained in the legislation specifies that “to qualify for the credit...the parcel of land: ... (B) may not be used for any other for-profit purpose that would subject the parcel to property tax liability....” However, there is no prohibition against properties being used for other non-profit purposes. Accordingly, a two acre lot that had a home on it and had a one half acre food plot on it could qualify for the credit. No provision is made for determining how the credit is to be split or applied to properties with multiple uses. This creates the very real potential that this credit could be applied for by, and granted to, properties that while meeting the very basic definitions of “urban agricultural property” included in the State law, do not further the goals of the City with respect to providing healthier food choices for its citizens.

Further, as no definition is given for “agricultural products” the actual production of a piece of property is measured only by the value of those products produced, a requirement for which a waiver can be granted. This lack of clear restrictions and definitions of qualifying products makes the credit ripe for abuse. Theoretically, someone could farm Christmas trees on their undeveloped land while speculating on the market and receive a 90% tax credit for doing so.

Ultimately, while the true cost of this credit is difficult to quantify, the potential lost revenue can be estimated. By examining the current assessments of just those properties with no improvements that met the size requirements of 1/8<sup>th</sup> of an acre to 5 acres, as prescribed by the State law, the following estimate of potential loss was produced. Allowances were made for City owned properties on which no tax is currently being collected. The full cash values of the remaining properties were then multiplied by the City’s current real property tax rate to generate total potential tax revenue of \$2,632,999.

With this urban agriculture tax credit in place, there is the potential for 90% of that revenue to be lost to the credit, resulting in a potential net loss for the City of (\$2,369,699), or 2/3 of a cent on every dollar collected under the current tax rate. Put another way, if this accepted loss in revenue were applied to a tax rate reduction, the average city homeowner would save over \$10 per year on their tax bill. It should be noted that this is based on an examination of only those properties with no improvements. There is nothing in the current legislation that would prevent the use of property that was improved, a fact which makes estimating the actual cost of this credit almost impossible.

<b># of Properties between 1/8th of an Acre and 5 Acres with No Improvements</b>	<b>1,682</b>
<b># of those Properties owned by the Housing Authority of Baltimore City</b>	<b>40</b>
<b># of those Properties owned by the Mayor and City Council of Baltimore City</b>	<b>493</b>
<b># of Remaining Properties between 1/8th of an Acre and 5 Acres with No Improvements</b>	<b>1,149</b>
<b>Total Assessed Full Cash Value of the remaining 1,149 Unimproved Properties</b>	<b>\$117,126,300</b>
<b>Total Tax on these remaining properties</b>	<b>\$2,632,999</b>
<b>90% Potential Loss to the City from the Urban Agriculture Tax Credit</b>	<b>(\$2,369,699)</b>

## **Recommendation**

The Finance Department does not support CC Bill 14-0420 in its current form and recommends that the qualifications for the credit be enhanced and made clear so as to prevent any potential ambiguities that could lead to abuse of the tax credit. Furthermore, the Finance Department does not feel that it is the City entity best suited to analyzing the public costs and benefits of this credit and reporting annually thereon. The Finance Department recommends that this reporting function be retained by the Sustainability Office.

CC: Henry Raymond  
William Voorhees  
Natawna Austin