

Andrew Klein

FROM	NAME & TITLE	Andrew W. Kleine, Budget Chief
	AGENCY NAME & ADDRESS	Department of Finance Room 432 City Hall (396-4941)
	SUBJECT	City Council Bill No. 09-0331 – Newly Constructed Tax Credit - Reauthorization

CITY of
BALTIMORE
MEMO



TO

DATE: June 2, 2009

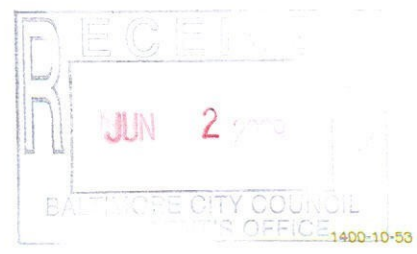
Honorable President and
Members of the City Council
C/O Karen Randle
Room 409, City Hall

City Council Bill 09-0331 proposes to extend five years the current sunset of the Newly Constructed tax credit program from June 30, 2009 until June 30, 2014. Current law establishes a 90 day application period after the settlement of the property. The bill proposes an additional application period of 90 days after the owner receives the first assessment of the property. Additionally, the bill proposes a one-time amnesty period for qualified owners who failed to apply within the time allowed by current law. The amnesty period would cover eligible homeowners who did not apply since January 1, 2005, granting the credit if applications are receive within 60 days after the enactment of this law.

This program started in Fiscal 1995 with the purpose of encouraging the construction and purchase of new homes in the City. The Newly Constructed tax credit program provides a 5-year tax credit applicable to the taxable value of newly constructed or substantially rehabilitated dwellings that have been cited as being vacant and abandoned for more than one year. The credit granted is 50% of the taxable value for the first year followed by an annual decline of ten percentage points thereafter.

Fiscal Impact

- The annual cost of the Newly Constructed tax credit cost, in terms of foregone property tax revenue, has grown from \$20,300 in 1996 to \$2.9 million in Fiscal 2008, with a cumulative cost of \$12.6 million.
- There are about 1,750 homeowners currently receiving the benefit of the Newly Constructed tax credit, with an estimated Fiscal 2009 year-end cost of \$3.8 million.
- If the credit were to sunset according to current law, the remaining cost of existing credits over the next four years is estimated to be \$6.1 million.
- The proposed sunset extension would benefit an estimated 1,825 new applicants with a total cost of \$26.3 million over nine years. Additionally, the estimated five-year cost of homeowners taking advantage of the proposed amnesty period is \$2.6 million. This estimate includes all homeowners who purchased their homes within the amnesty period and either did not apply for the credit or applied after the deadline.
- The estimated fiscal impact of the proposed bill represents a total revenue loss of \$28.9 million over the next nine years.



Analysis

The Newly Constructed Dwelling Tax Credit is subject to annual analysis by the Finance Department. Findings from this review are reported to the Board of Estimates and to the Mayor and City Council in the annual Executive Summary of the budget (the latest analysis is attached). In analyzing the credit, the Finance Department has looked to answer the following questions:

- Has the program been effectively distributed?
 - Has the program spurred new development?
 - Could the dollars spent on the program be better used to make the City a desirable location to purchase a home?
- Has the program been effectively distributed?
 - The distribution of the credit has been highly concentrated
 - About 58.8% of the credits granted since Fiscal 2007 were located in only ten City neighborhoods, and little less than 75.0% are spread out in only 18 out of the total 272 neighborhoods in the City.
 - Most of these are neighborhoods around the downtown, inner harbor and waterfront areas – desirable areas that would thrive without this subsidy.
 - Credits granted outside of these areas tend to be for developments receiving other public subsidies, such as the HOPE VI project areas or Sandtown-Winchester.
 - According to credit applicant survey results from 2000 to 2009, 38% of credit recipients have household incomes over \$100,000, and another 33% have incomes above the state median.
- Has the program spurred new development?
 - Historical residential building permit data indicates that larger market forces drive new home construction.
 - As reported in the Fiscal 2009 Executive Summary of the budget, the average annual number of residential building permits since the creation of this tax credit is lower during the 1980s, before the tax credit program existed.
 - The credit was established after the recession of the early 1990s, but permit activity continued to fall for several years. It picked up as the economy improved this decade, peaking in 2005 due to the national housing boom fueled by subprime lending.

- Results of the credit applicant survey since 2000 show that 49.3% of the recipients did not have any knowledge about the existence of this tax credit before the purchase of their homes, and about 50% of the recipients did not know how much their property tax would be reduced by the tax credit.
 - The credit may boost the price of new housing and make it easier to sell, but it is hard to conclude from available evidence that the credit has caused new housing to be built or is necessary to sell new housing.
- Could the dollars spent on the program be better used to make the City a desirable location to purchase a home?
 - Sales involving the tax credit represent only 1.2% of all sales and 2.8% of sales reported by real estate companies.
 - It is fair to ask if \$4-5 million benefiting a small fraction of the City's housing activity would be more effectively spent to mitigate reductions to public safety, recreation and parks, and other basic services that make the City livable.

Recommendations

The Finance Department recommends that the Council retain provisions in the law requiring analysis of the costs and benefits of the Newly Constructed tax credit and annual reporting of the findings of that analysis.

Cc: Edward Gallagher
Angela Gibson
Pedro Aponte

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