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	AGENCY NAME & ADDRESS	Department of Finance Room 454, City Hall (396-4940)			
	SUBJECT	City Council Bill No. 08-0057 – Property Tax Credit – High-Performance Buildings			

DATE:

April 18, 2008

TO

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

City Council Bill 08-0057 proposes a 100% property tax credit for a ten-year period for buildings deemed to be a “High Performance Building.” A high performance building is one that achieves a silver rating or higher according to the U.S. Green Building Council’s LEED (Leadership in Energy and Environmental Design), as adopted by the Maryland Green Building Council or any other standards for green buildings as approved by the State of Maryland.

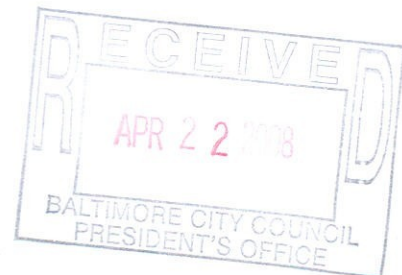
Fiscal Impact

Through its research, the Bureau of Budget and Management Research has learned from several sources that constructing a building as a “high performance building” according to the standards set forth in the proposed legislation will add between 2% and 5% to the normal cost of construction. Using the assumption of a commercial building costing \$5 million, this will add between \$100 thousand and \$250 thousand to the cost of construction. The first year property tax credit on this building under this legislation at the current tax rate would be \$118 thousand, and the cumulative ten-year tax credit savings would be \$1.48 million. Similar types of savings would be available to residential buildings.

This is an extremely generous tax credit program which it is assumed will be promoted aggressively by both energy savings advocates and industry representatives. The Department assumes that because of the generosity of this credit, all new construction projected to be added to the assessable base of the City for the life of this credit will be constructed according to the standards of a “high performance building” to qualify for this credit.

The program has a sunset date, but does not provide for the termination of the credit. It is assumed properties with the credit will continue to get the credit for the full 10-year period while no new applications are granted after March 1, 2012. It is assumed that the credit will be transferable upon sale since the legislation is silent on the subject.

Based on these assumptions, the following table shows the potential impact of the proposed bill in terms of annual revenue loss for the City:



Unfair.

	Total Annual Cost
FY 2009	\$6,978,340
FY 2010	\$14,654,514
FY 2011	\$23,080,860
FY 2012	\$32,313,204
FY 2013	\$42,411,080
FY 2014	\$53,437,961
FY 2015	\$56,109,859
FY 2016	\$58,915,352
FY 2017	\$61,861,119
FY 2018	\$64,954,175
FY 2019	\$56,834,903
FY 2020	\$47,741,319
FY 2021	\$37,596,288
FY 2022	\$26,317,402
FY 2023	\$13,816,636
Total Est'd Cost=	\$597,023,010

The Department estimates a material revenue loss of \$7.0 million for Fiscal 2009, and an estimated total revenue loss of \$597.0 million during the next fifteen years. This level of investment is not sustainable without severe impacts to City service delivery.

Furthermore, this program is in fact a grant program with no substantial gain in property tax revenues from reassessments as a result of the improvements. Therefore, it is not revenue neutral; as such, it does not meet the stated intent and spirit of the Green Building Task Force's goal of revenue neutrality.

This extremely generous tax credit expense is on top of the \$14.8 million in tax relief already projected in the FY 2009 budget. It is difficult to see how it makes sense for the most fiscally stressed jurisdiction in the State of Maryland to offer this type of grant program when it would have no impact on the City's strategic goal of growing the tax base. It is clear that if adopted, this tax credit would be an effective tool in encouraging the construction of high performance buildings. However, it is the position of the Department of Finance that as the City struggles with the goal of broad-based tax reform and lessening the property tax burden on City residents and businesses that this proposed credit is too expensive and focuses too much tax relief on too small a portion of City taxpayers.

Policy issues and the proper role of the City

The Finance Department believes that Federal, state and local governments each have a unique and proper role that they should play to address the issues of global warming, reducing oil dependency, reducing CO2 emission, and addressing other aspects of environmental degradation. The Federal government has the primary role to take the lead in establishing national standards, policy and tools. Further it must use the "power tool" of the Federal income tax, as it is the most appropriate and effective tax policy tool available to affect policy outcomes. The State governments' most proper role is to level the playing field among wealthy and poor communities and provide judicial, transportation, education and social services. The state also has a role with its powerful, diverse, broad-based tax tools to experiment with tax policy to encourage desired policy outcomes. The local level's primary responsibility is to provide basic community services within the severe limits of state grant of

taxing authority, and to guide proper land use decisions. And poor, high tax burden jurisdictions like Baltimore City must focus on the provision of basic services, maximize the yield from its limited tax base, and focus on strategic investments that serve to enhance that tax base.

The City must strive to be a model of conservation. The magic of the multilevel federal system of government in this country is the creativity that results from the diverse approaches of states and local government. However, the correct path of action for the most fiscally stressed subdivision in Maryland cannot be tax subsidies. It should be on the creative use of talents to model excellence in the management and use of energy resources. That is being achieved through the leadership efforts of the Department of Public Works, General Services Bureau, and the new Office of Sustainability in the Department of Planning. In addition, as both the City Master Plan and the Baltimore City Green Building Task Force Report call for, the City should examine how best to use the building code to maximize “green” results. Within the control of local government, energy experts point to life and building style as the most important action area. Local government can impact the size, shape, orientation and location of our homes and other buildings.

Finance Department Position

For these reasons, the Finance Department is opposed to Council Bill 08-0057.

cc: Angela Gibson