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	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410) 396-4774		
	SUBJECT	City Council Bill 21-0167 – High-Performance Market-Rate Rental Housing Tax Credit - Citywide - Application Extension		

DATE:

TO

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

November 8, 2021

Position: Support with Amendments

The Department of Finance is herein reporting on City Council Bill 21-0167, High-Performance Market-Rate Rental Housing (HPMRR) – Citywide - Tax Credit Application Extension, the purpose of which is to extend applications for this credit by five years, from December 2022 to December 2027.

Background

The High-Performance Market-Rate Rental (HPMRR) Housing Tax Credit, adopted in Fiscal 2014 with the passage of City Council Bill 14-0359, is designed to encourage construction and rehabilitation of apartment structures throughout the City. The credit is applied to the real property tax bill for 10 years, beginning at 80% of the tax imposed for the first five years of eligibility and decreasing annually to 30% by year 10. Initially, eligible projects were required to have 20 or more rental units and total costs had to exceed \$60,000 per unit. However, this requirement was modified in January 2020 by Ordinance 19-331 to reduce the requirement from 20 or more rental units to 10 or more rental units.

When adopted, this credit was set to last for five years with a sunset date of December 31, 2017. Ordinance 17-022, enacted in June 2017, granted a five-year application period extension from December 31, 2017 to December 31, 2022.

Since this tax credit started being granted in Fiscal 2016, a total of 20 HPMRR projects have been completed, adding 2,465 market-rate rental apartment units to the City’s inventory.

Fiscal Impact

It is anticipated that extending the sunset of this tax credit program to December 31, 2027 will result in both an increase in the number of recipients and total tax credit cost for 15 more years. The number of apartments per HPMRR project have ranged from 16 to 394 units per building. Based on Fiscal 2021 and 2022 data, the proposed extension will result in the additional participation of at least two new HPMRR projects to this program per year over the next five years. Additionally, it is estimated that these projects will add a total of 100 market-rate rental apartments per year.

The estimated average first-year credit cost per apartment is \$2,950, which represents an additional cost of \$9.6 million in HPMRR tax credit cost between Fiscal 2024 and Fiscal 2039. This estimated cost does not include the cost of existing participants in this program. The Fiscal 2021 HPMRR Citywide tax credit cost was \$7.8 million, and represented a total credit cost of \$13.9 million for this fiscal year when combined with the Targeted HPMRR tax Credit. This credit currently ranks as the third largest incentive program in the City after the Enterprise Zone and Brownfield tax credits.

Other Considerations and Proposed Amendment

Mayor Scott recently announced the creation of a Tax Credit Review Committee tasked with the evaluation of all existing property tax credits. It is expected that this Committee will review these

programs and provide recommendations to ensure that these incentive programs provide sustainable and equitable growth to the City's tax base and ultimately a reduction in tax credit costs to the City.

The Department of Finance considers that the proposed five-year application extension for this tax credit is excessive and undermines the objectives and recommendations that may result from the Mayor's Committee. Finance recommends that the application extension be reduced to no more than two years, which provides ample time for projects to continue as the Committee finalizes recommendations.

Conclusion

While the extension of the deadline will lead to an increase in the long-term cost of the credit, the Department of Finance supports the intent of the legislation, with amendments, to allow the Mayor's Tax Credit Review Committee to provide recommendations for more efficient and equitable use of City resources for existing and new incentive programs.

For the reasons stated above, the Department of Finance supports, with amendments, City Council Bill 21-0167.

cc: Henry Raymond
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