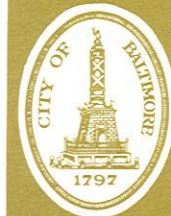


Andrew Kleine

FROM	NAME & TITLE	Andrew W. Kleine, Budget Chief
	AGENCY NAME & ADDRESS	Department of Finance Room 432 City Hall (396-4941)
	SUBJECT	Amended City Council Bill No. 08-0057 – Property Tax Credit High-Performance Buildings

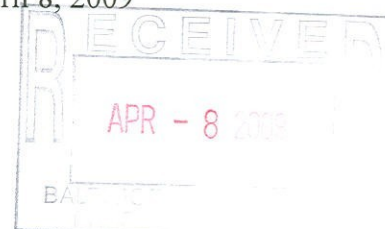
CITY of
BALTIMORE
MEMO



TO

DATE: April 8, 2009

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



City Council Bill 08-0057 proposed a 100% property tax credit for a ten-year period for High Performance Buildings achieving the Silver Rating Certification.

There are two proposed amendments to City Council Bill 08-0057:

- Eligible projects must achieve the Gold LEED rating instead of the original Silver rating certification; and
- The tax credit period is reduced from ten to five years. No other changes to the original bill are proposed.

Fiscal Impact and Analysis:

- According to a LEED cost study called *Managing the Cost of Green Buildings*, published in 2003 by KEMA energy consulting company, LEED Silver certification for a “high performance building” increases the normal cost of construction between 0% and 3.3%, while achieving Gold LEED certification increases construction cost between 3% and 5%.
- A more recent report titled *The Cost of Green Revisited*, published in July 2007 by the construction cost management consulting company Davis-Langdon, concludes that there is no significant difference in the average construction cost of a green building as compared to non-green buildings.
- For a building with construction costs of \$5 million, the additional cost to be incurred in order to achieve the required certification would not be higher than \$250,000.
- The proposed tax credit for a newly constructed building with construction costs of \$5 million would generate a property tax reduction of \$119.1 thousand in the first year, with a cumulative five-year tax credit cost of \$657.9 thousand per building.
- According to the State Department of Assessment and Taxation (SDAT), the City will realize new construction valued at \$290 million in Fiscal 2010, with an estimated total realized new construction of \$918 million between Fiscal 2010 to FY 2012, the period for which the proposed credit would be authorized. Because of the generosity of this credit, we have assumed that all new construction will meet the standards of a “high performance building.”

Unfair.

The following table shows the potential impact of the proposed bill in terms of annual revenue loss for the City:

	Total Annual Cost
FY 2010	\$6,609,433
FY 2011	\$13,879,809
FY 2012	\$21,860,700
FY 2013	\$22,953,735
FY 2014	\$24,101,421
FY 2015	\$16,870,995
FY 2016	\$8,857,272
Total Est'd Cost=	\$115,133,365

- There is a material revenue loss of \$6.6 million for Fiscal 2010 and an estimated total cumulative revenue loss of \$115.1 million during the next seven years.
- The tax credit would reduce real property tax collection with no substantial gain in property tax revenues from reassessments due to improvements.
- The proposed tax incentive will be an additional cost on top of the estimated \$175.1 million in tax credit costs in the Fiscal 2010 Preliminary Budget, which already represent about 11.5% of total Fiscal 2010 General Fund revenues.
- The tax credit would further reduce City revenues, which are currently stressed by the economic crisis and the uncertainty of State funding.
- The availability of the proposed tax credit would only benefit a small portion of the City, and would severely compromise the City's ability to provide the same level of quality service to all its residents.
- Several studies assure that energy efficient buildings consume on average 20% less energy and 35% less water than regular buildings. The cost savings associated with these efficiency gains should provide ample incentive for developers and builders to make the limited one-time investment required for green buildings.

Finance Department Position

The Finance Department does not support the amendments to Council Bill 08-0057 and continues to oppose the original bill.

cc: Edward J. Gallagher
 Angela Gibson
 Pedro Aponte