Andrew Kleine

FROM NAME & TITLE	Andrew Kleine, Chief
AGENCY NAME & ADDRESS	Bureau of Budget and Management Research Department of Finance
SUBJECT	City Council Resolution No. 09-0323 – Conservation Tax Credit

CITY of BALTIMORE

MEMO

CITY OF BALTIMORE 1797

TO

DATE:

October 12, 2011

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

Bill Synopsis

City Council Bill 09-0323 provides for a 100% tax credit for property held by qualified land trusts. The bill as written would extend the credit on a year to year basis. The credit would be available for land uses that fell within one of five categories, 1) preserve natural area, 2) environmental education, 3) promote conservation, 4) natural area for public use, 5) conserve and promote agriculture.

Analysis

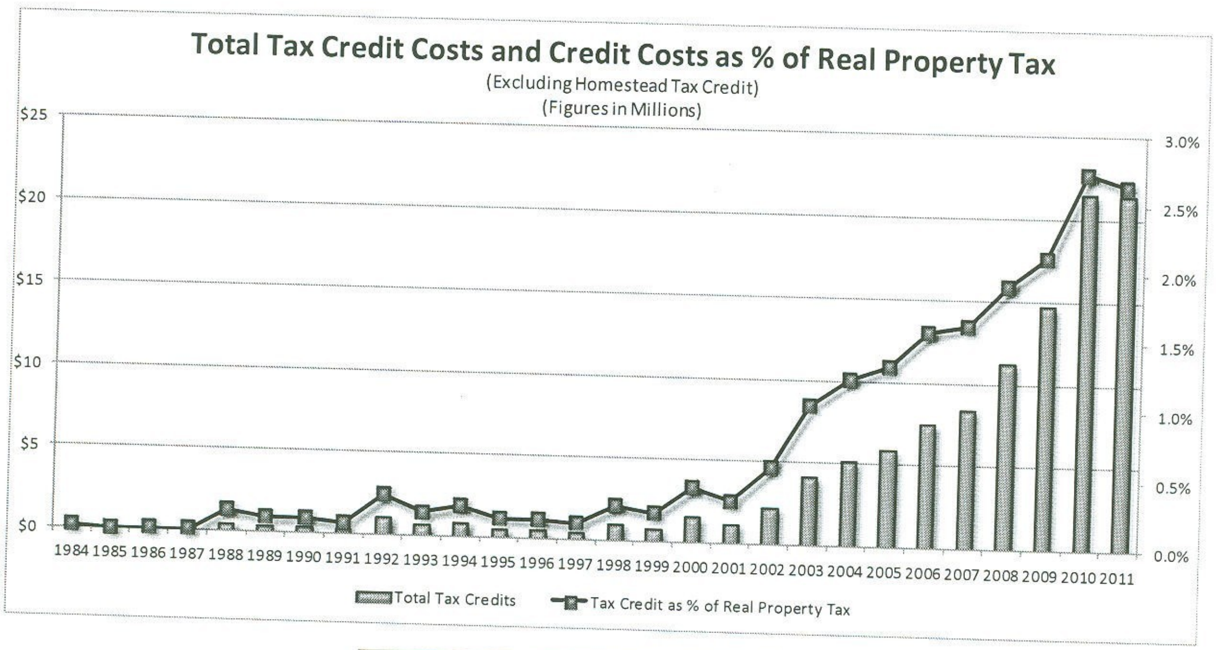
The state law cites two conservancy tax credits, Conservation Property (Maryland Statute Section 9-107) and Conservation Lands (Maryland Statute Section 9-220). The first credit is a mandatory credit while the second is an optional credit that CCB09-0323 would implement. The State mandatory Conservation Property Tax Credit is applicable to land that is unimproved, not used for commercial purposes and subject to a perpetual conservation easement that is donated to a specified trust. The credit is for 100% of the tax for a period of 15 years (see chart below for comparison).

The benefits of a conservation tax credit are numerous and could serve to strengthen many neighborhoods throughout the City by turning vacant lots into vegetable gardens, nature spots and trails. The work of the land trusts that sponsor these projects should be commended and encouraged.

However, when considering a tax credit it is important to place it in context of overall City objectives and competing appropriations. Since 1978, tax credits have grown from 0.1% of total tax revenues to over 2.5% in fiscal year 2011 (see graphs below). Currently, tax credits, excluding the Homestead Tax Credit, represent $21.5 million dollars that could otherwise by utilized for lowering the property tax rate. Additional tax credits, no matter how beneficial, will continue to reduce funds that are available for both City operations and for property tax reduction.

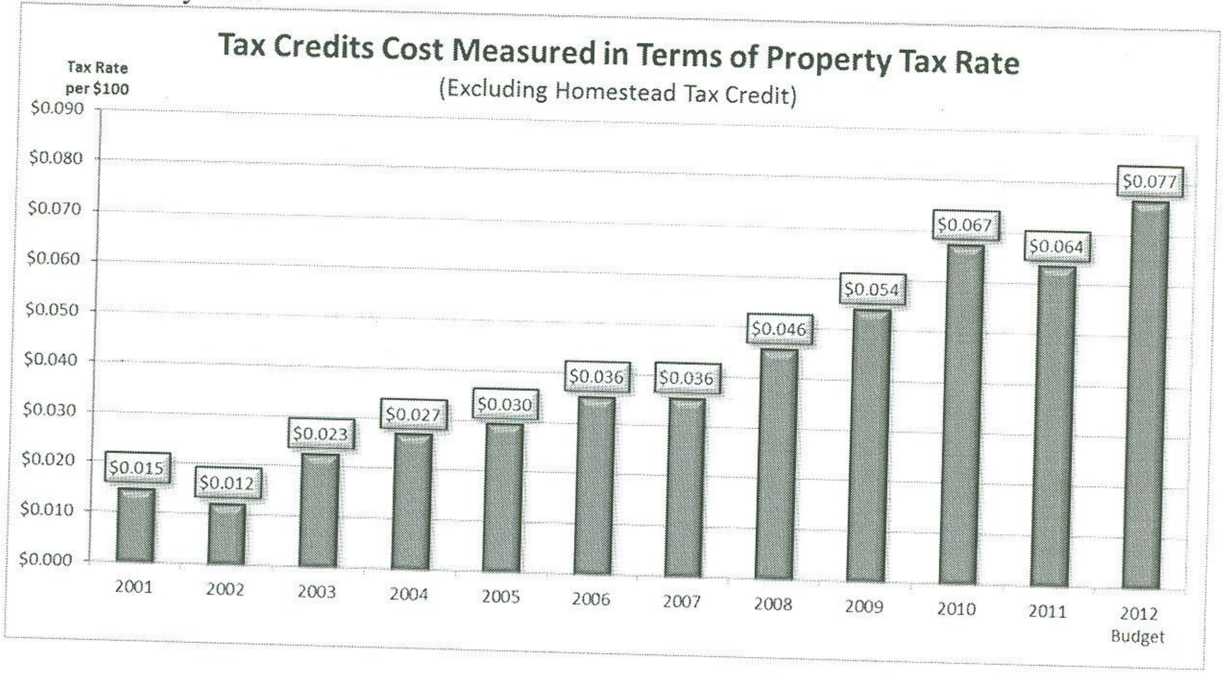
Unfav.

Comparison Between State Mandated Conservation Credit and Proposed Conservation Credit		
Criterion	**Tax Property 9-107**	**CCB09--323**
Eligibility	1) Unimproved 2)Not used for commercial purpose 3)Subject to perpetual easement that is donated to : Department of Natural Resources or Maryland Environmental Trust as a Grantee and accepted and approved by the Board of Public Works.	1)Preservation of natural areas 2)Environmental education 3)Maintenance of: natral area for public use, wildlife sanctuary, conserve agricultural land and subject to perpetual easement that is donated to : Department of Natural Resources or Maryland Environmental Trust as a Grantee and accepted and approved by the Board of Public Works or qualified conservation organizations as defined in 3-2a-01 of Natural Resources Article.
Credit	100% credit of all property tax	100% credit of City property tax
Term	15 years	Year to Year
State Tax Credit	Yes	No



Tax Credit Detail (FY11)	
Credit	**Tax Expenditure**
Newly Constructed	-$4,016,030
Conservation	-$6,664
Other Credits	-$1,369,027
Enterprise Zone	-$7,844,477
Historic	-$8,258,227
Total	**-$21,494,425**

The decision to grant a property tax credit should be considered analogous to an appropriation of funds. Appropriations are made after substantial analysis has been performed by the City and it is assured that the appropriation will move the City towards its strategic goal. A tax credit does not have the same controls as an appropriation which assures the strategic objectives of the City are efficiently met.



Multi-year tax credits also violate the non-appropriation principle which limits a current government from appropriating funds due a future government. It is important that future governments have the resources to meet the changing needs of the City.
While in name these trust lands would be available for public use, that may not be the case in reality due to geographic location, function and access. Public lands should benefit the City as a whole. Without a strategic plan to allocate tax credits and public lands City-wide, there is concern that the benefits of this tax credit will not be allocated equitably across the City. Should the City decide to implement this tax credit, we would urge that credits only be given to properties that meet the goals of a strategic open space plan developed by Department of Recreation and Parks.

Fiscal Impact
It is difficult to estimate the amount of assessment dollars that this might ultimately impact. In the short-run, it is believed the impact will be minimal. However, other states have experienced rapid growth with this type of tax credit. This suggests that the modest level currently predicted will continue to grow over the years at a rapid rate.

We must also consider the initial cost to implement the tax credit and the ongoing costs of servicing it. These costs include designing and implementing a tax credit application and renewal process, including programming changes to both the billing and accounting software to accommodate the processing of the tax credit. These costs could be substantial depending on the degree of modifications that are needed. Ongoing administration costs will be substantially incremental, however employees will need to be assigned and trained in the processing of the tax credit. For the first several years of the tax credit, it is likely the costs of administering the credit will exceed the credit itself.

The credit has the potential to **permanently** remove substantial portions of property from the City's tax rolls; limiting future revenues the City will receive. Currently, the City has substantial portions of non-revenue producing property locked-up as exempt property. This credit will only exacerbate the problem in the future.

There are also concerns as to what happens to the property if the trust is unable to maintain the property or in the more severe case where the trust becomes defunct.

Recommendation

At this time, the Department of Finance must recommend that City Council Bill 09-0323 not be passed.

Cc: Edward Gallagher
Angela Gibson