

FROM	NAME & TITLE	Edward J. Gallagher, Director
	AGENCY NAME & ADDRESS	Department of Finance Room 454, City Hall (396-4940)
	SUBJECT	Update on City Efforts to Remove Ineligible Homestead Credits

CITY of
BALTIMORE
MEMO



TO

City Council Budget and Appropriations Committee

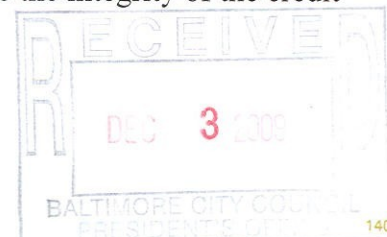
DATE:
December 2, 2009

At the hearing on the State of the City's Budget on December 1, 2009, Councilwoman Spector requested an update on the status of the City's efforts to work with the State Department of Assessments and Taxation (SDAT) to root out ineligible Homestead Credits on non-owner occupied properties and collect that money for the City. This memo provides an update on the status of these efforts over the past year and our proposal for strengthening this work going forward.

By way of background, the Homestead Credit is the limit or cap on the amount by which taxable assessments for owner-occupied residential properties can increase each year. For the City of Baltimore, the cap is set at 4%. The cap can legally be applied only to a homeowner's principal residence; under the law, a taxpayer is not entitled to the credit on any additional properties that he or she may own. The reality, however, is that many examples have been found in the City and throughout the State of property owners benefiting unlawfully from the Homestead Credit on properties that are not their principal residence.

Over the past year, the Department of Finance has worked closely with the Mayor's Office of Information Technology (MOIT) and SDAT to curb abuse within the Homestead Credit program. In fall 2008, the City compared its rental registration database to the owner-occupancy code in the SDAT system that governs whether a property is eligible for Homestead Credit. This data-matching effort identified approximately 1,600 properties in the city that appeared to be registered as rental properties but were benefiting from Homestead Credit on their tax bills. Property owners were given a chance to prove their owner-occupancy to SDAT, and if they did not, then the Homestead Credits were removed. The effort resulted in more than \$1 million in additional property taxes billed in Fiscal Year 2009 and more than \$1.5 million in Homestead Credits removed from the Fiscal Year 2010 tax rolls. We are currently working with MOIT on a similar data check of properties with 2009 rental registrations that are receiving Homestead Credits.

This exercise illustrates the need for regular audit activities with regard to the Homestead Credit and other special credits such as the Newly Constructed Dwelling Tax Credit that also require principal residency as eligibility criteria. With legislative changes approved by the General Assembly in 2007, homeowners are now required to certify their residency status with the State in order to continue to be eligible for Homestead Credit after 2012. The Department of Finance is working with SDAT to try to ensure the proper implementation of the new application requirement in the city. Even with this new application process, however, there will be a need for regular auditing and data checking to ensure the integrity of the credit program.



While the audit process until now has been ad hoc relying on some data matching among systems as well as research by citizens who refer ineligible properties to us, evidence from the initiatives over the past year show clearly that focusing the efforts of a dedicated staff person to this subject will result in better billing and collections and a more consistent application of the law across all tax accounts. The City would benefit from having a staff person dedicated to this function who can ensure the proper follow-up to audit findings by SDAT, MOIT and the Bureau of Revenue Collections. The Department of Finance has submitted an outcome budgeting proposal for this audit position for the FY2011 budget.

In addition to issues regarding appropriate application of the Homestead Credit, if funding is approved, the new position would also be responsible for monitoring the pace of assessments on all new construction, residential and commercial, to ensure that assessments are completed and bills are produced as soon as possible after the issuance of Use and Occupancy permits. The position will also oversee the implementation of better quality control procedures between SDAT and the Bureau of Revenue Collections with regard to the assessment and billing of personal property tax. The staff person will use data analysis to ensure that accounts are being assessed and billed on a consistent and timely basis every year.

C: Angela Gibson
Andrew Kleine